i t 's good and good for you

Chapter 1
Marketing:
Creating and Capturing Customer Value

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Creating and Capturing Customer Value

Topic Outline

- What Is Marketing?
- Understand the Marketplace and Customer Needs
- Designing a Customer-Driven Marketing Strategy
- Preparing an Integrated Marketing Plan and Program
- Building Customer Relationships
- Capturing Value from Customers
- The Changing Marketing Landscape

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

What Is Marketing?

Marketing is a process by which companies create value for customers and build strong customer relationships to capture value from customers in return

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

What Is Marketing?

The Marketing Process

Create value for customers and build customer relationships
Capture value from customers in return
Understand the marketplace and customer needs and wants
Design a customer-driven marketing strategy
Construct an integrated marketing program that delivers superior value
Build profitable relationships and create customer delight
Capture value from customers to create profits and customer equity

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Understanding the Marketplace and Customer Needs

Customer Needs, Wants, and Demands

Needs

- States of deprivation
  - Physical—food, clothing, warmth, safety
  - Social—belonging and affection
  - Individual—knowledge and self-expression

Wants

- Form that needs take as they are shaped by culture and individual personality

Demands

- Wants backed by buying power

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Understanding the Marketplace and Customer Needs

- **Market offerings** are some combination of products, services, information, or experiences offered to a market to satisfy a need or want
- **Marketing myopia** is focusing only on existing wants and losing sight of underlying consumer needs

A Mind is a Terrible Thing to Waste
Ad Council
UNCF helps thousands of deserving students. But we have to turn away thousands more. So please give to the United Negro College Fund. Your donation will make a difference. Visit uncf.org or call 1-800-332-8623.
UNITED NEGRO COLLEGE FUND
A mind is a terrible thing to waste!

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Understanding the Marketplace and Customer Needs

Customer Value and Satisfaction Expectations

Customers

- Value and satisfaction

Marketers

- Set the right level of expectations
- Not too high or low

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

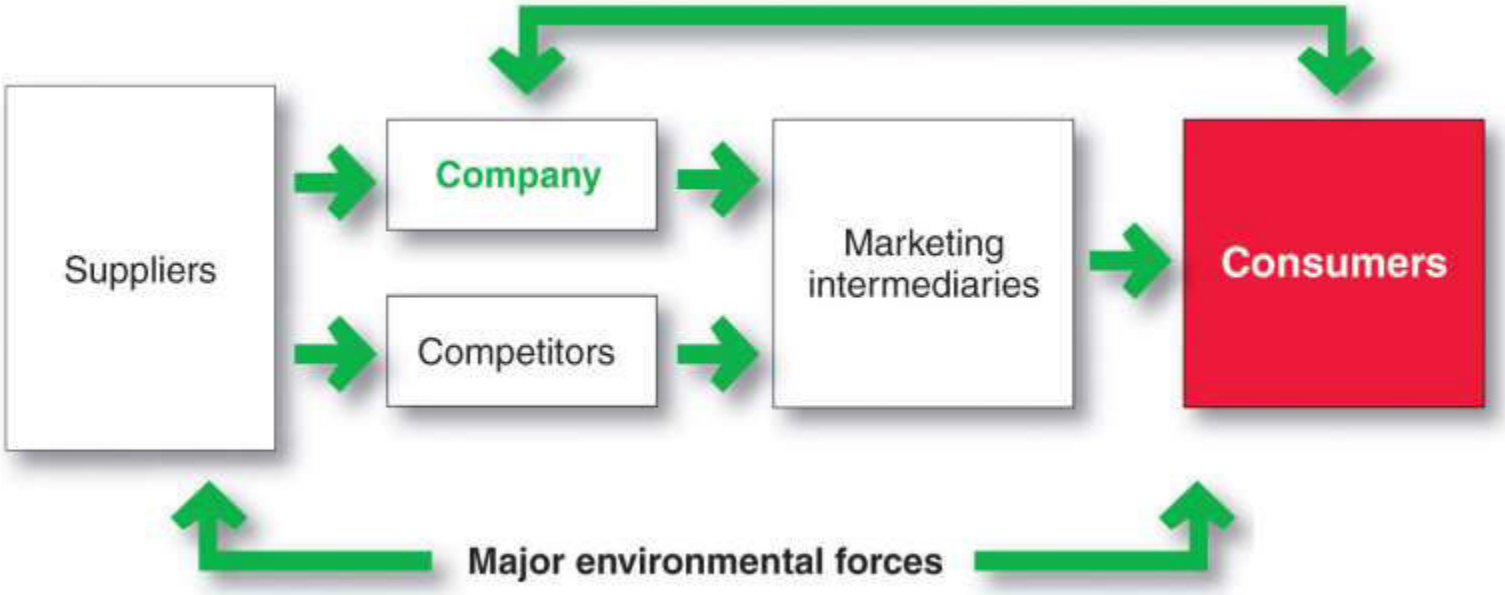
Understanding the Marketplace and Customer Needs

Exchange is the act of obtaining a desired object from someone by offering something in return

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Understanding the Marketplace and Customer Needs

Markets are the set of actual and potential buyers of a product



Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Designing a Customer-Driven Marketing Strategy

Marketing management is the art and science of choosing target markets and building profitable relationships with them

- What customers will we serve?
- How can we best serve these customers?

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Designing a Customer-Driven Marketing Strategy

Selecting Customers to Serve

Market segmentation refers to dividing the markets into segments of customers

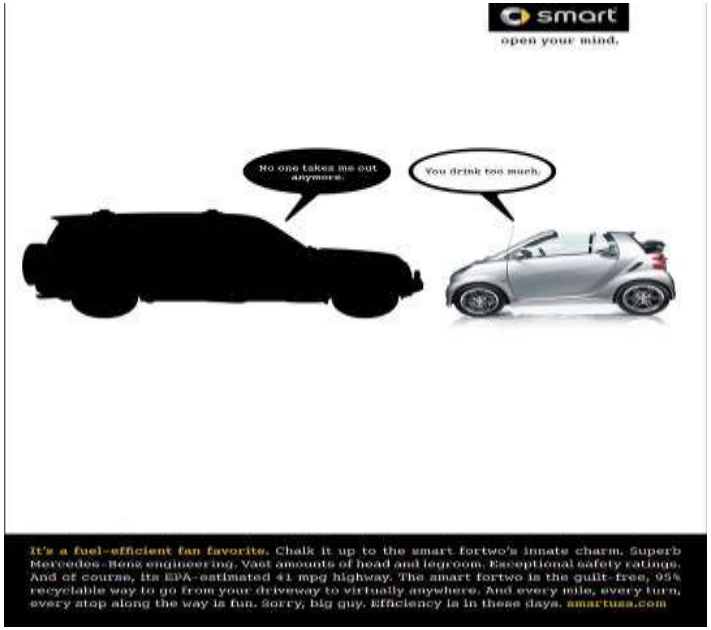
Target marketing refers to which segments to go after

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Designing a Customer-Driven Marketing Strategy

Choosing a Value Proposition

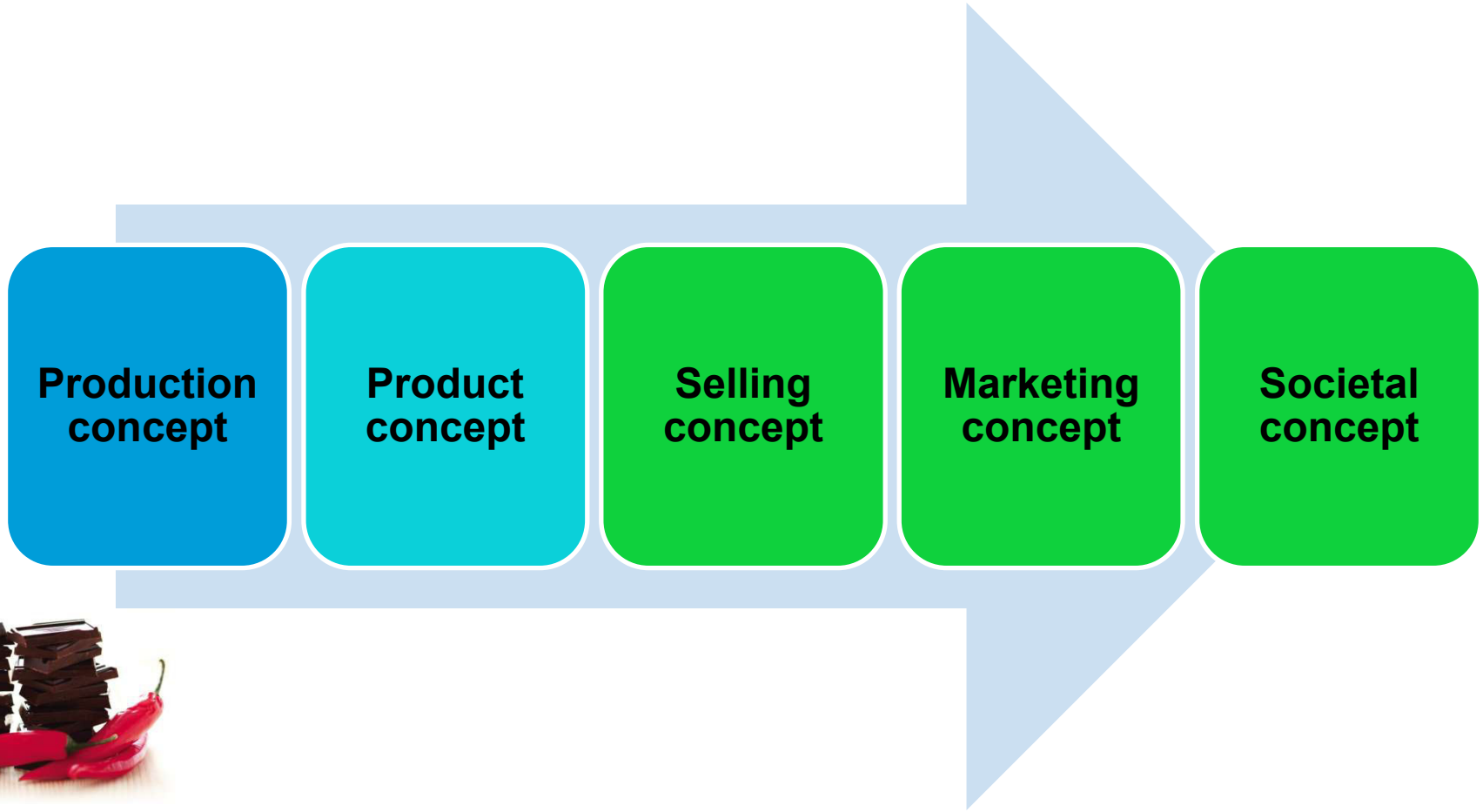
Value proposition
Set of benefits or values a company promises to deliver to customers to satisfy their needs


smart
open your mind.
No one takes me out anymore.
You drink too much.
It's a fuel-efficient fan favorite. Chalk it up to the smart fortwo's innate charm. Superb Mercedes-Benz engineering. Vast amounts of head and legroom. Exceptional safety ratings. And of course, its EPA-estimated 41 mpg highway. The smart fortwo is the guilt-free, 95% recyclable way to go from your driveway to virtually anywhere. And every mile, every turn, every stop along the way is fun. Sorry, big guy. Efficiency is in these days. smartusa.com

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Designing a Customer-Driven Marketing Strategy

Marketing Management Orientations



Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Designing a Customer-Driven Marketing Strategy

Marketing Management Orientations

Production concept is the idea that consumers will favor products that are available or highly affordable

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Designing a Customer-Driven Marketing Strategy

Marketing Management Orientations

Product concept is the idea that consumers will favor products that offer the most quality, performance, and features. Organization should therefore devote its energy to making continuous product improvements.

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Designing a Customer-Driven Marketing Strategy

Marketing Management Orientations

Selling concept is the idea that consumers will not buy enough of the firm's products unless it undertakes a large scale selling and promotion effort

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Designing a Customer-Driven Marketing Strategy

Marketing Management Orientations

Marketing concept is the idea that achieving organizational goals depends on knowing the needs and wants of the target markets and delivering the desired satisfactions better than competitors do

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

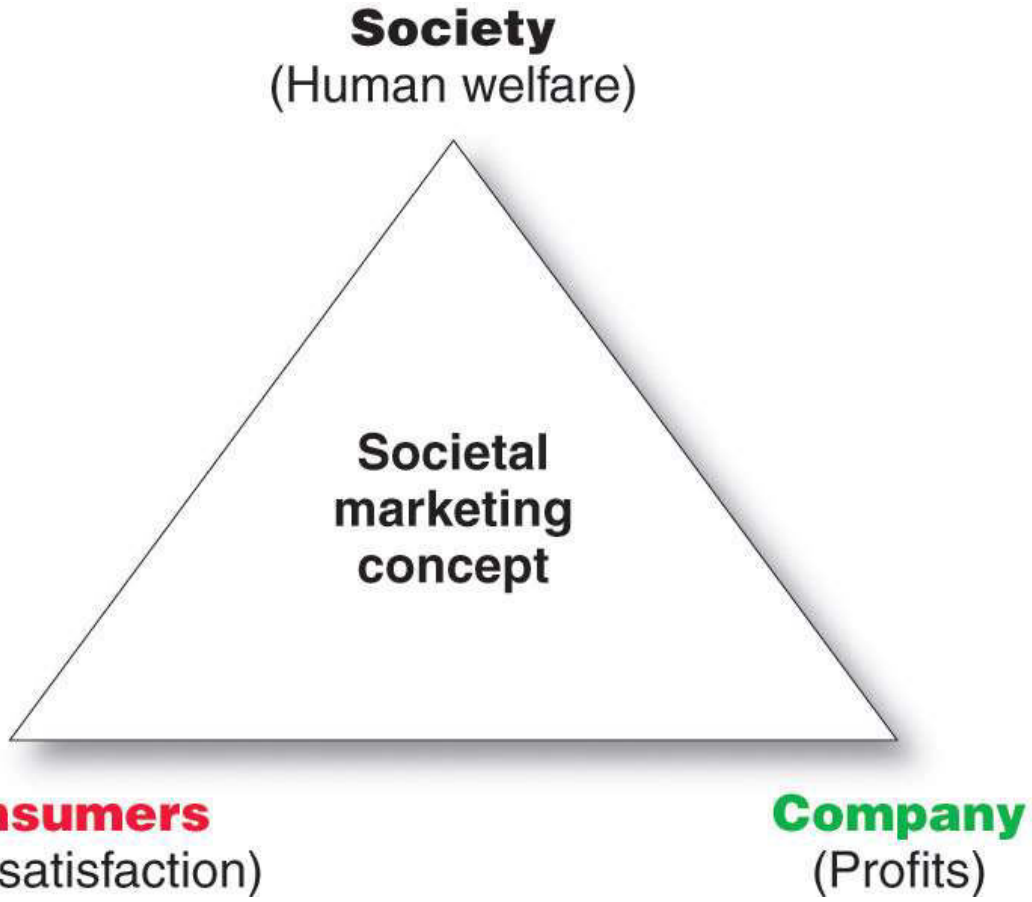
Designing a Customer-Driven Marketing Strategy

Marketing Management Orientations

Societal marketing concept is the idea that a company should make good marketing decisions by considering consumers' wants, the company's requirements, consumers' long-term interests, and society's long-run interests

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Designing a Customer-Driven Marketing Strategy



Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Preparing an Integrated Marketing Plan and Program

The marketing mix: set of tools (four Ps) the firm uses to implement its marketing strategy. It includes product, price, promotion, and place.

Integrated marketing program: comprehensive plan that communicates and delivers the intended value to chosen customers.

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Building Customer Relationships

Customer Relationship Management (CRM)

- The overall process of building and maintaining profitable customer relationships by delivering superior customer value and satisfaction

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Building Customer Relationships

Relationship Building Blocks: Customer Value and Satisfaction

Customer-perceived value	Customer satisfaction
• The difference between total customer value and total customer cost	• The extent to which a product's perceived performance matches a buyer's expectations

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Building Customer Relationships

Customer Relationship Levels and Tools

Basic Relationships

Full Partnerships

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Building Customer Relationships

The Changing Nature of Customer Relationships

- Relating with more carefully selected customers uses selective relationship management to target fewer, more profitable customers
- Relating more deeply and interactively by incorporating more interactive two way relationships through blogs, Websites, online communities and social networks

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Building Customer Relationships

The Changing Nature of Customer Relationships

Customer-managed relationships

Marketing relationships in which customers, empowered by today's new digital technologies, interact with companies and with each other to shape their relationships with brands.

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Building Customer Relationships

Partner relationship management involves working closely with partners in other company departments and outside the company to jointly bring greater value to customers

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Building Customer Relationships

Partner Relationship Management

- Partners inside the company is every function area interacting with customers
  - Electronically
  - Cross-functional teams
- Partners outside the company is how marketers connect with their suppliers, channel partners, and competitors by developing partnerships

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Building Customer Relationships

Partner Relationship Management

- Supply chain is a channel that stretches from raw materials to components to final products to final buyers
- Supply chain management

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Capturing Value from Customers

Creating Customer Loyalty and Retention

- Customer lifetime value is the value of the entire stream of purchases that the customer would make over a lifetime of patronage

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Capturing Value from Customers

Growing Share of Customer

Share of customer is the portion of the customer's purchasing that a company gets in its product categories

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Capturing Value from Customers

Customer equity is the total combined customer lifetime values of all of the company's customers

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Capturing Value from Customers

Building Customer Equity

- Right relationships with the right customers involves treating customers as assets that need to be managed and maximized
- Different types of customers require different relationship management strategies

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

The Changing Marketing Landscape

Uncertain Economic Environment

- New consumer frugality
- Marketers focus on value for the customer

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

The Changing Marketing Landscape

Digital Age

- People are connected continuously to people and information worldwide
- Marketers have great new tools to communicate with customers
- Internet + mobile communication devices creates environment for online marketing

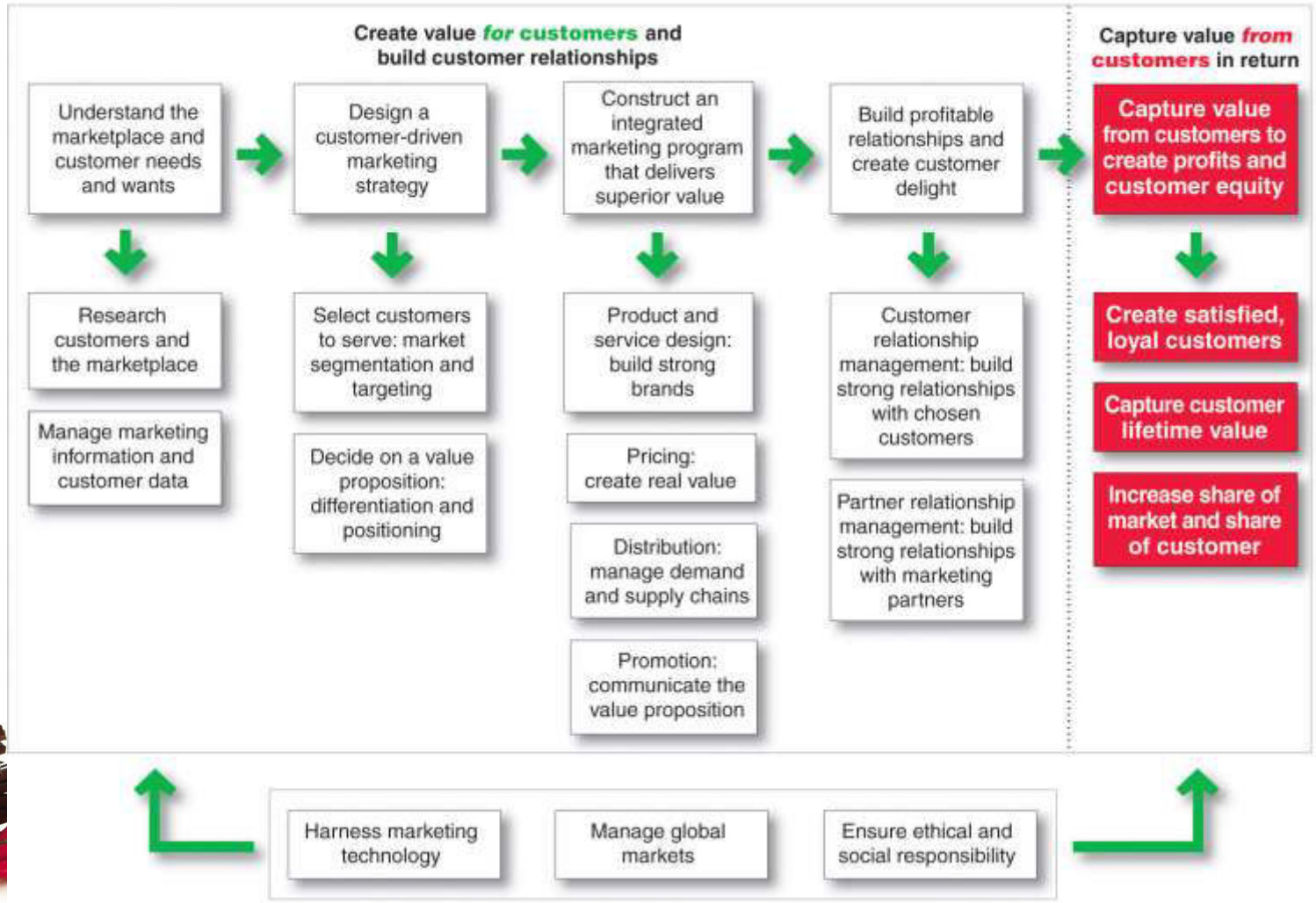
Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

The Changing Marketing Landscape

- Rapid Globalization
- Sustainable Marketing
- Not-for-Profit Marketing

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

So, What Is Marketing? Pulling It All Together


Create value for customers and build customer relationships
Capture value from customers in return
Understand the marketplace and customer needs and wants
Design a customer-driven marketing strategy
Construct an integrated marketing program that delivers superior value
Build profitable relationships and create customer delight
Capture value from customers to create profits and customer equity
Research customers and the marketplace
Manage marketing information and customer data
Select customers to serve: market segmentation and targeting
Decide on a value proposition: differentiation and positioning
Product and service design: build strong brands
Pricing: create real value
Distribution: manage demand and supply chains
Promotion: communicate the value proposition
Customer relationship management: build strong relationships with chosen customers
Partner relationship management: build strong relationships with marketing partners
Create satisfied, loyal customers
Capture customer lifetime value
Increase share of market and share of customer
Harness marketing technology
Manage global markets
Ensure ethical and social responsibility

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

This work is protected by United States copyright laws and is provided solely for the use of instructors in teaching their courses and assessing student learning. Dissemination or sale of any part of this work (including on the World Wide Web) will destroy the integrity of the work and is not permitted. The work and materials from it should never be made available to students except by instructors using the accompanying text in their classes. All recipients of this work are expected to abide by these restrictions and to honor the intended pedagogical purposes and the needs of other instructors who rely on these materials.

All rights reserved. No part of this publication may be reproduced, stored in a retrieval system, or transmitted, in any form or by any means, electronic, mechanical, photocopying, recording, or otherwise, without the prior written permission of the publisher. Printed in the United States of America.

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

i t ’s good and good for you

Chapter Two

Company and Marketing Strategy

Partnering to Build Customer Relationships

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Company and Marketing Strategy

Topic Outline

- Companywide Strategic Planning: Defining Marketing's Role
- Designing the Business Portfolio
- Planning Marketing: Partnering to Build Customer Relationships
- Marketing Strategy and the Marketing Mix
- Managing the Marketing Effort
- Measuring and Managing Return on Marketing Investment

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Companywide Strategic Planning

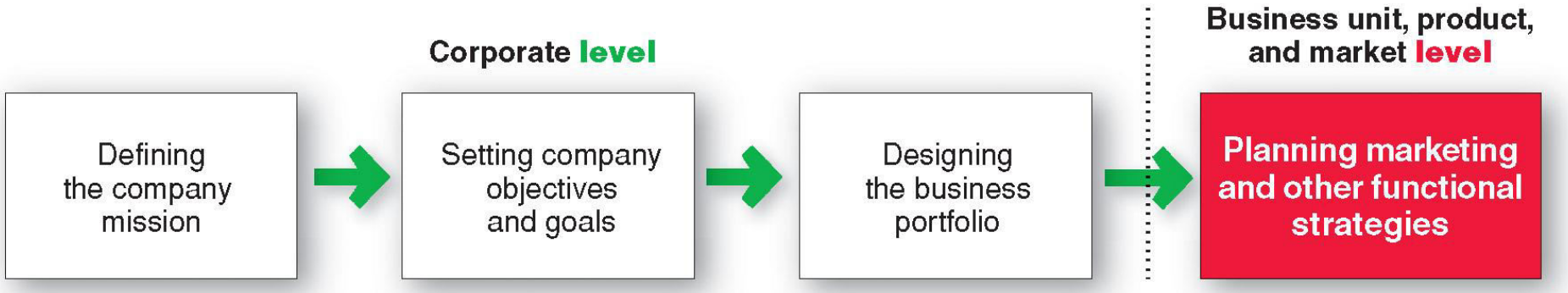
Strategic Planning

Strategic planning is the process of developing and maintaining a strategic fit between the organization's goals and capabilities and its changing marketing opportunities

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Companywide Strategic Planning

Steps in Strategic Planning


Corporate level
Business unit, product, and market level
Defining the company mission
Setting company objectives and goals
Designing the business portfolio
Planning marketing and other functional strategies

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Companywide Strategic Planning

Defining a Market-Oriented Mission

- The mission statement is the organization's purpose, what it wants to accomplish in the larger environment
- Market-oriented mission statement defines the business in terms of satisfying basic customer needs

Google™

We help you organize the world's information and make it universally accessible and useful.

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Companywide Strategic Planning

Setting Company Objectives and Goals

Business objectives	Marketing objectives
• Build profitable customer relationships • Invest in research • Improve profits	• Increase market share • Create local partnerships • Increase promotion

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Companywide Strategic Planning

Designing the Business Portfolio

The business portfolio is the collection of businesses and products that make up the company

Portfolio analysis is a major activity in strategic planning whereby management evaluates the products and businesses that make up the company

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Companywide Strategic Planning

Analyzing the Current Business Portfolio

Strategic business units can be

- Company division
- Product line within a division
- Single product or brand

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Companywide Strategic Planning

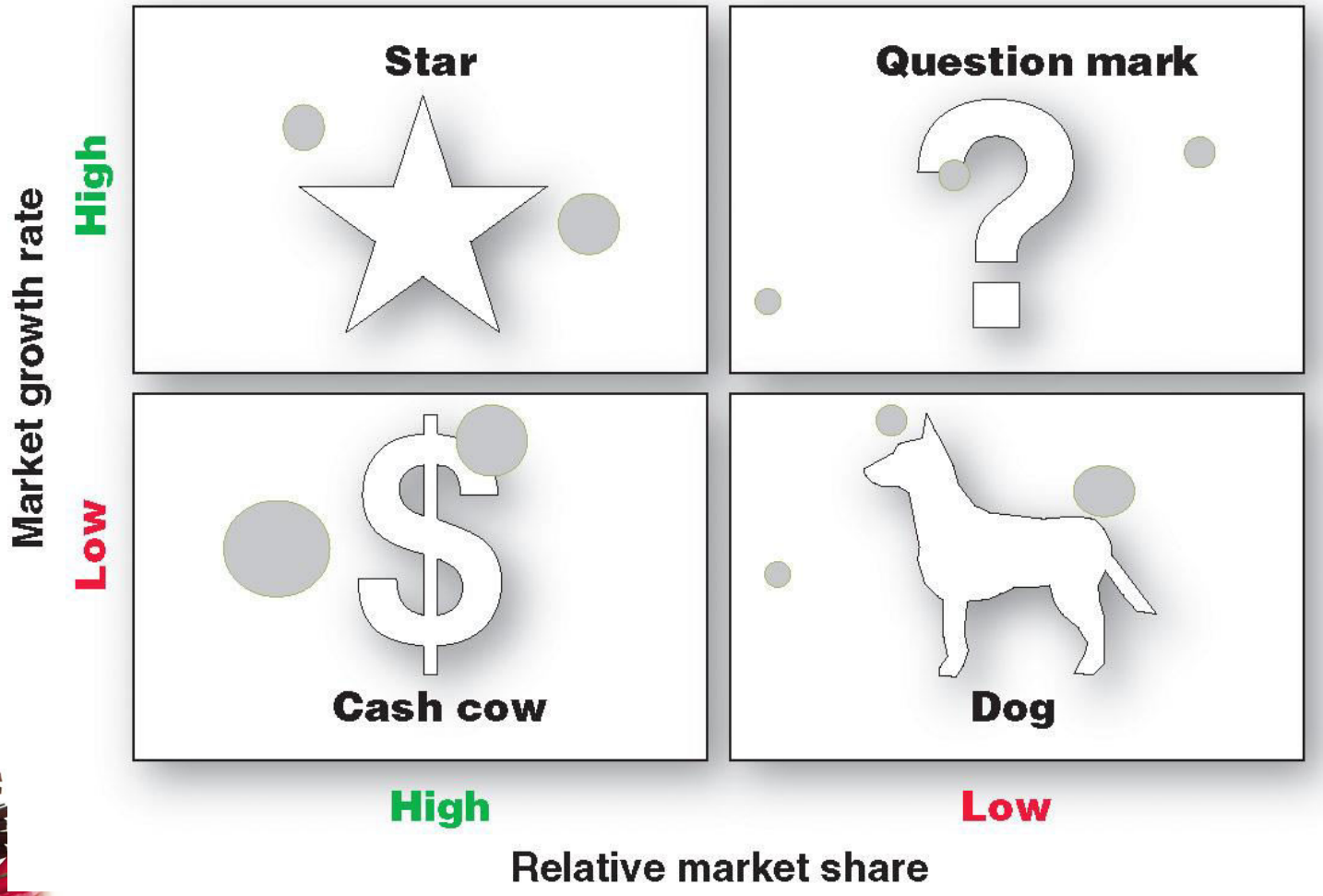
Analyzing the Current Business Portfolio

Identify key businesses (strategic business units, or SBUs) that make up the company

Decide how much support each SBU deserves

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Companywide Strategic Planning:



Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Companywide Strategic Planning

Problems with Matrix Approaches

- Difficulty in defining SBUs and measuring market share and growth
- Time consuming
- Expensive
- Focus on current businesses, not future planning

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Companywide Strategic Planning

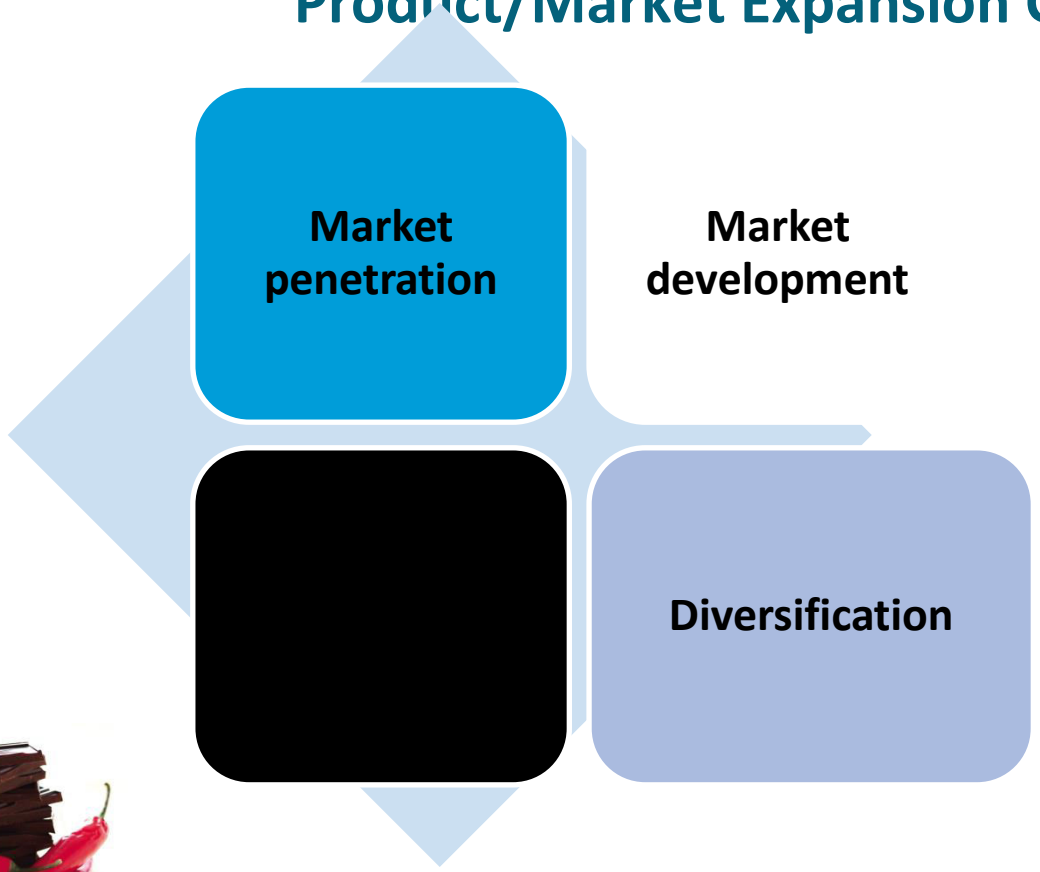
Developing Strategies for Growth and Downsizing

Product/market expansion grid is a tool for identifying company growth opportunities through market penetration, market development, product development, or diversification

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Companywide Strategic Planning

Developing Strategies for Growth and Downsizing
Product/Market Expansion Grid Strategies



Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Companywide Strategic Planning

Developing Strategies for Growth and Downsizing

Market penetration is a growth strategy increasing sales to current market segments without changing the product

Market development is a growth strategy that identifies and develops new market segments for current products

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Companywide Strategic Planning

Developing Strategies for Growth and Downsizing

Product development is a growth strategy that offers new or modified products to existing market segments

Diversification is a growth strategy through starting up or acquiring businesses outside the company's current products and markets

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Companywide Strategic Planning

Developing Strategies for Growth and Downsizing

Downsizing is the reduction of the business portfolio by eliminating products or business units that are not profitable or that no longer fit the company's overall strategy

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Planning Marketing

Partnering to Build Customer Relationships

Value chain is a series of departments that carry out value-creating activities to design, produce, market, deliver, and support a firm's products

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Planning Marketing

Partnering to Build Customer Relationships

Value delivery network is made up of the company, suppliers, distributors, and ultimately customers who partner with each other to improve performance of the entire system

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Marketing Strategy and the Marketing Mix

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Marketing Strategy and the Marketing Mix

Customer-Driven Marketing Strategy

Market segmentation is the division of a market into distinct groups of buyers who have different needs, characteristics, or behavior and who might require separate products or marketing mixes

Market segment is a group of consumers who respond in a similar way to a given set of marketing efforts

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Marketing Strategy and the Marketing Mix

Customer-Centered Marketing Strategy

Market targeting is the process of evaluating each market segment's attractiveness and selecting one or more segments to enter

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Marketing Strategy and the Marketing Mix

Customer-Centered Marketing Strategy

Market positioning is the arranging for a product to occupy a clear, distinctive, and desirable place relative to competing products in the minds of the target consumer

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Marketing Strategy and the Marketing Mix

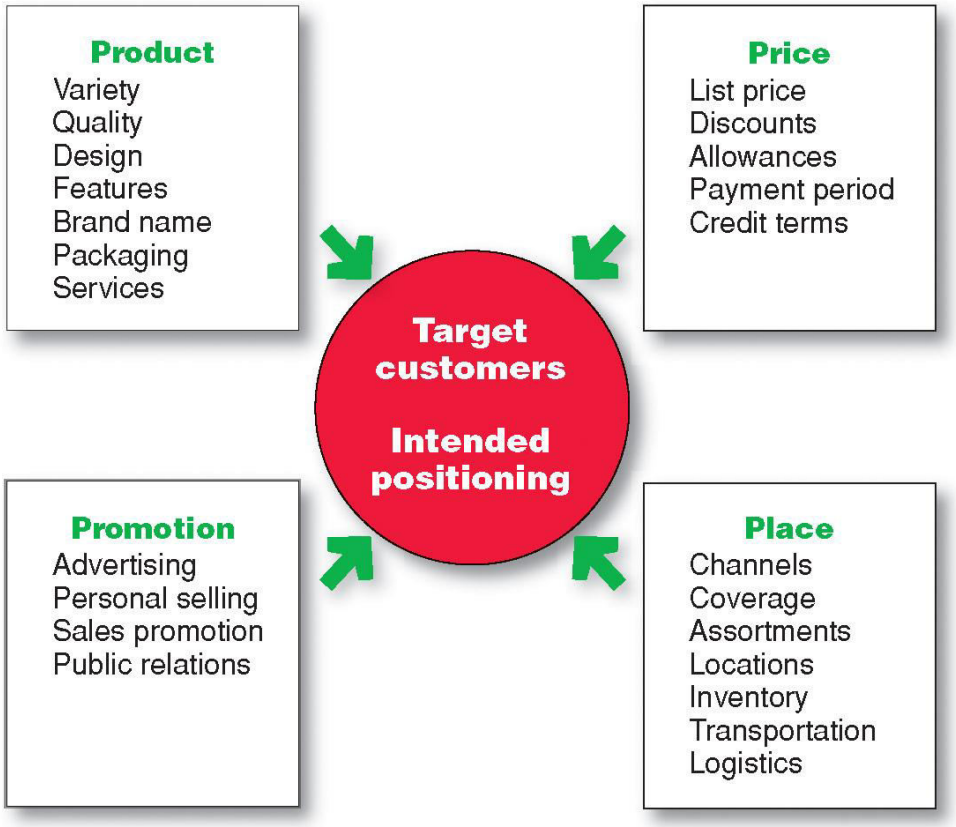
Developing an Integrated Marketing Mix

Marketing mix is the set of controllable tactical marketing tools—product, price, place, and promotion—that the firm blends to produce the response it wants in the target market

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

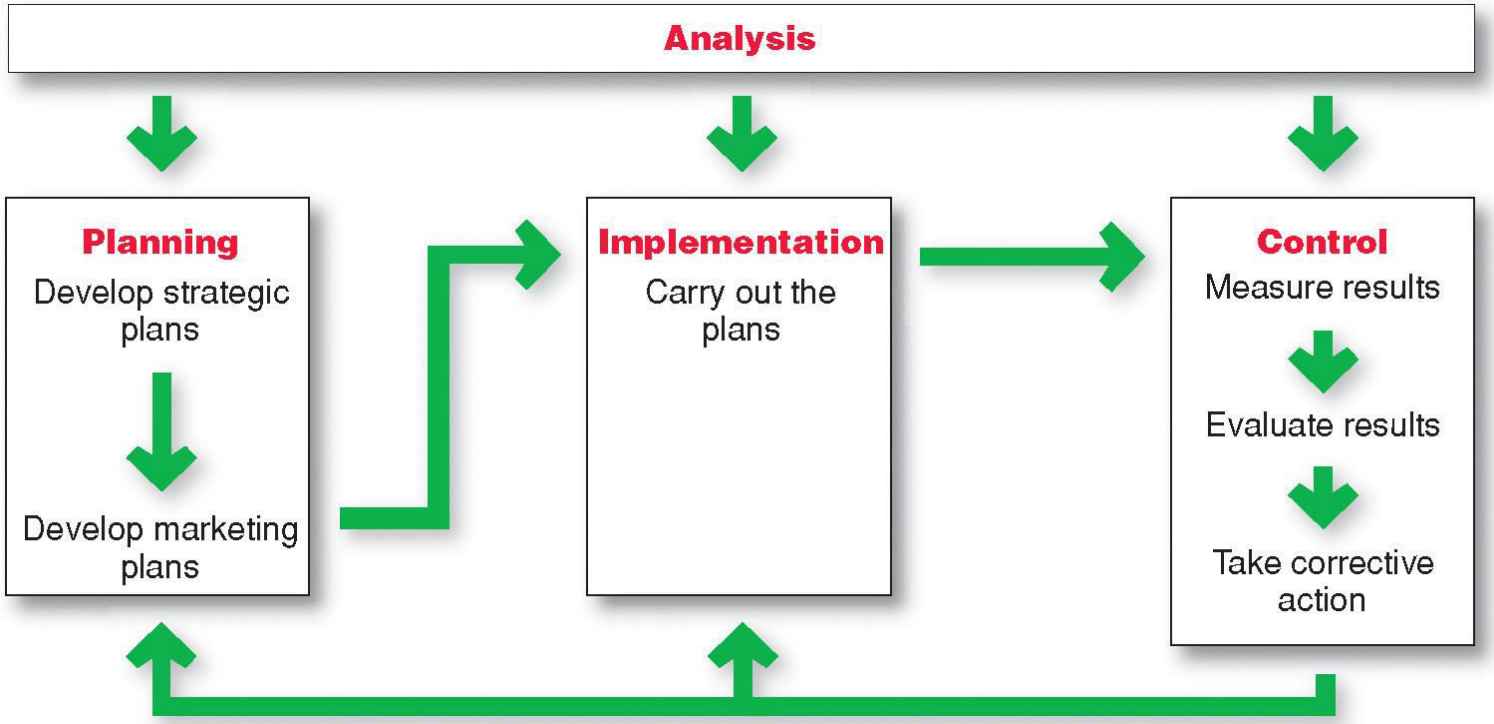
Marketing Strategy and the Marketing Mix

Developing an Integrated Marketing Mix



Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Managing the Marketing Effort



Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Managing the Marketing Effort

Marketing Analysis – SWOT Analysis

	Positive	Negative
Internal	**Strengths** Internal capabilities that may help a company reach its objectives	**Weaknesses** Internal limitations that may interfere with a company's ability to achieve its objectives
External	**Opportunities** External factors that the company may be able to exploit to its advantage	**Threats** Current and emerging external factors that may challenge the company's performance

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Managing the Marketing Effort

Market Planning—Parts of a Marketing Plan

Executive summary

Marketing situation

[redacted]

Objective and issues

Marketing strategy

Action programs

Budgets

[redacted]

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Managing the Marketing Effort

Marketing Implementation

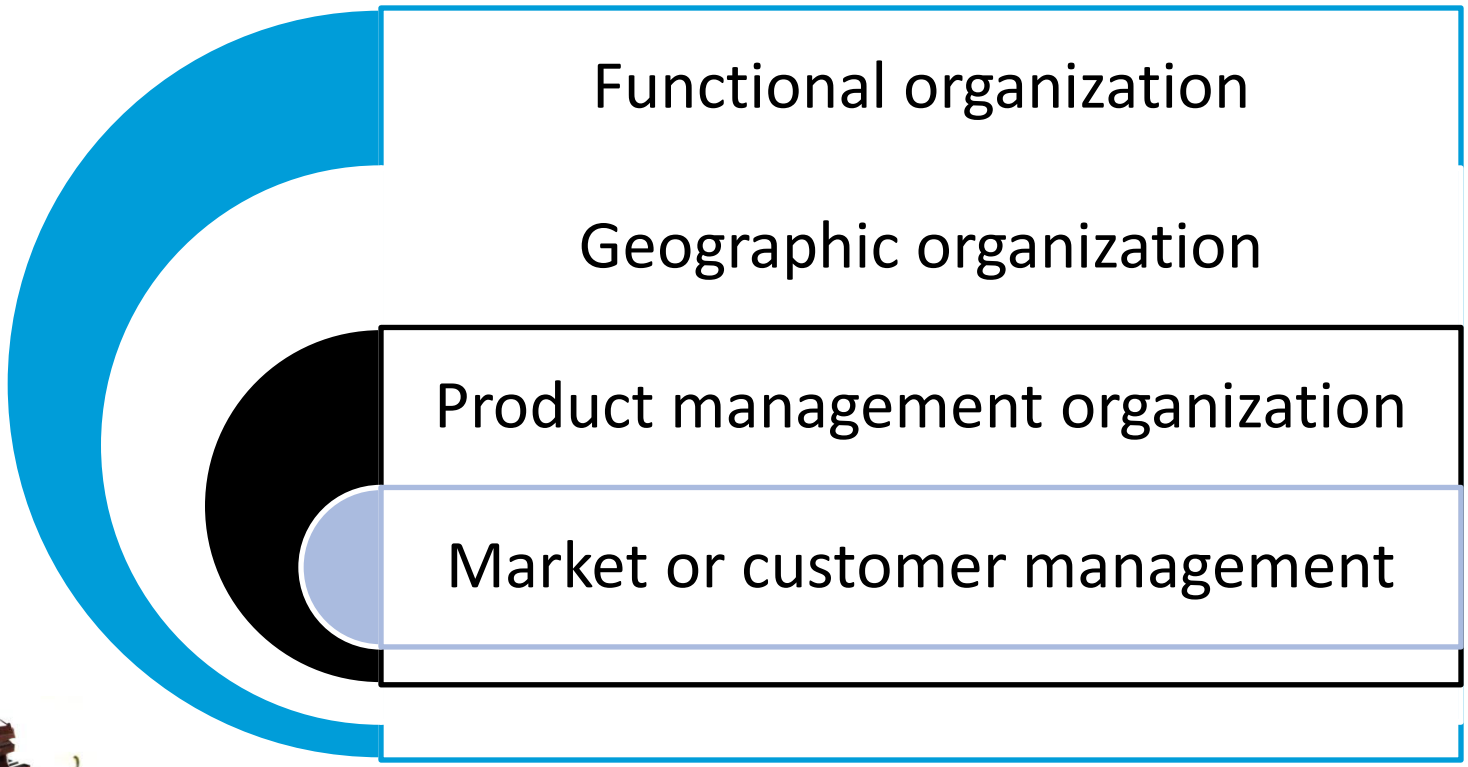
Implementing is the process that turns marketing plans into marketing actions to accomplish strategic marketing objectives

- Successful implementation depends on how well the company blends its people, organizational structure, decision and reward system, and company culture into a cohesive action plan that supports its strategies

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Managing the Marketing Effort

Marketing Department Organization



Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Managing the Marketing Effort

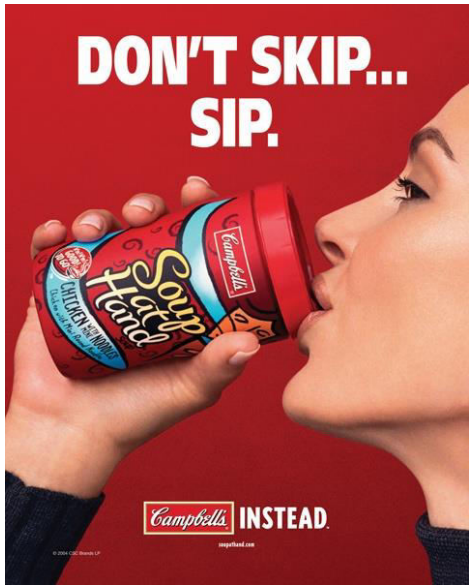
Marketing Control

- **Controlling** is the measurement and evaluation of results and the taking of corrective action as needed to ensure the objectives are achieved.
- Operating control
- Strategic control

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

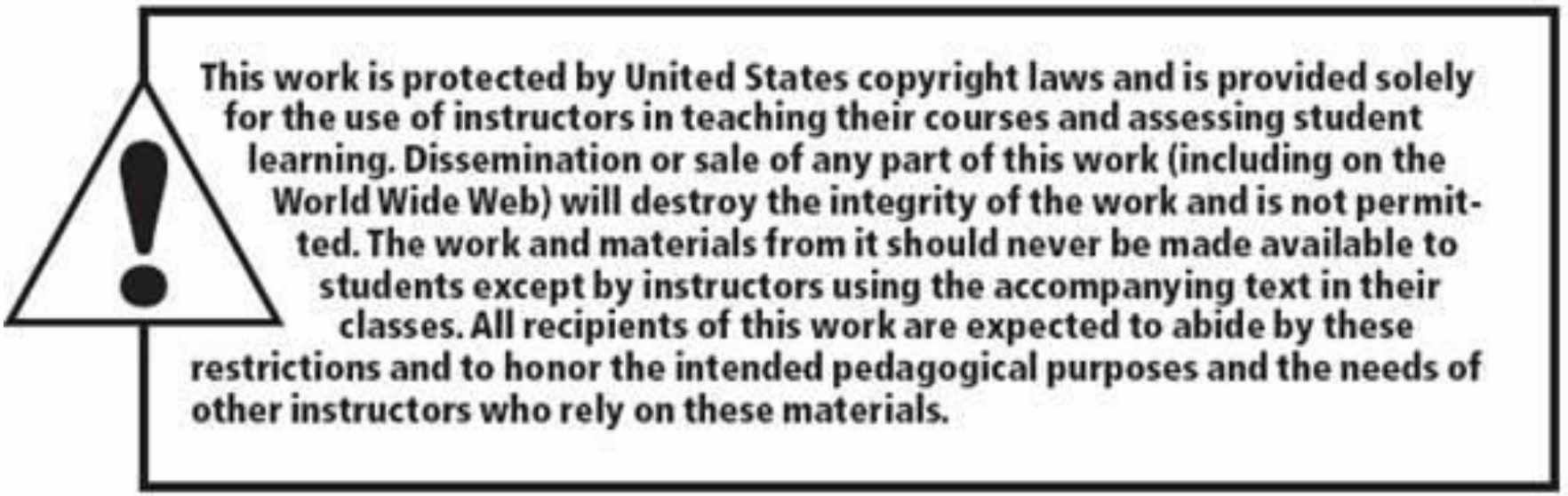
Measuring and Managing Return on Marketing Investment

Return on Marketing Investment (Marketing ROI)



Return on marketing investment (Marketing ROI) is the net return from a marketing investment divided by the costs of the marketing investment. Marketing ROI provides a measurement of the profits generated by investments in marketing activities.

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall


This work is protected by United States copyright laws and is provided solely for the use of instructors in teaching their courses and assessing student learning. Dissemination or sale of any part of this work (including on the World Wide Web) will destroy the integrity of the work and is not permitted. The work and materials from it should never be made available to students except by instructors using the accompanying text in their classes. All recipients of this work are expected to abide by these restrictions and to honor the intended pedagogical purposes and the needs of other instructors who rely on these materials.

All rights reserved. No part of this publication may be reproduced, stored in a retrieval system, or transmitted, in any form or by any means, electronic, mechanical, photocopying, recording, or otherwise, without the prior written permission of the publisher. Printed in the United States of America.

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

i t 's good and good for you

Chapter Three

Analyzing the Marketing Environment

Copyright © 2012 Pearson Education, Inc. Publishing as Prentice Hall

Analyzing the Marketing Environment

Topic Outline

- The Company's Microenvironment
- The Company's Macroenvironemnt
- The Demographic Marketing Environment
- The Economic Environment
- The Natural Environment
- The Technological Environment
- The Political and Social Environment
- The Cultural Environment
- Responding to the Marketing Environment

Copyright © 2012Pearson Education, Inc.
Publishing as Prentice Hall

The Marketing Environment

The marketing environment includes the actors and forces outside marketing that affect marketing management's ability to build and maintain successful relationships with customers

Copyright © 2012Pearson Education, Inc.
Publishing as Prentice Hall

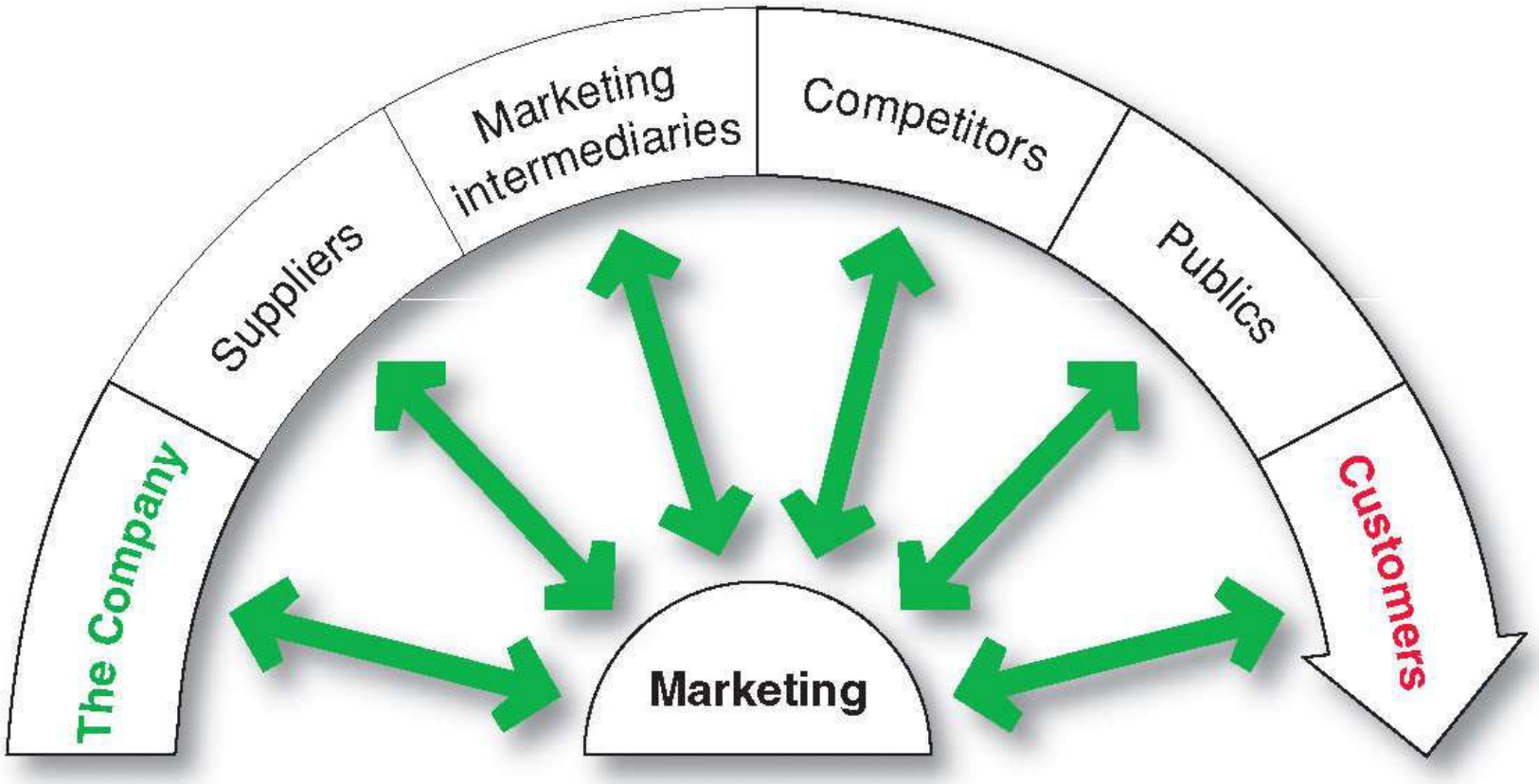
The Marketing Environment

Microenvironment consists of the actors close to the company that affect its ability to serve its customers, the company, suppliers, marketing intermediaries, customer markets, competitors, and publics

Copyright © 2012Pearson Education, Inc.
Publishing as Prentice Hall

The Company's Microenvironment

Actors in the Microenvironment

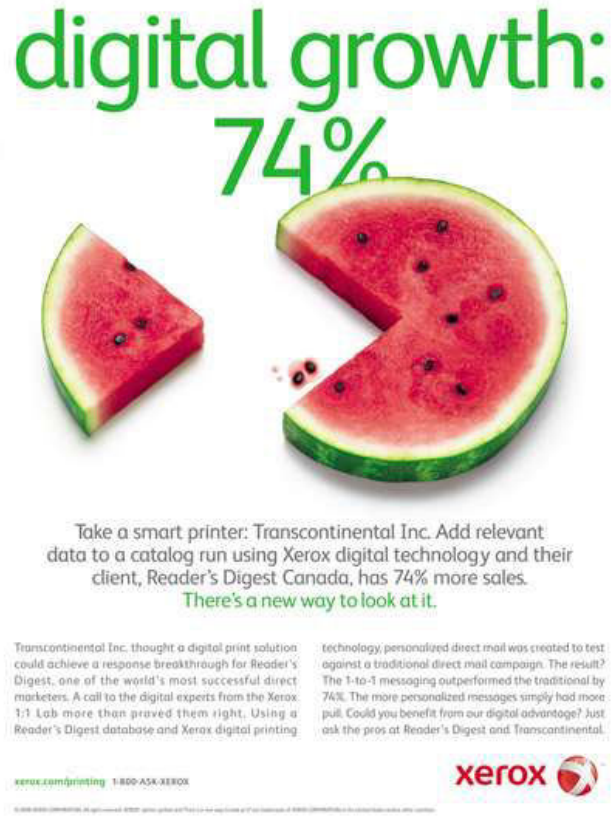


Copyright © 2012Pearson Education, Inc.
Publishing as Prentice Hall

The Company's Microenvironment

The Company

- Top management
- Finance
- R&D
- Purchasing
- Operations
- Accounting


digital growth:
74%
Take a smart printer: Transcontinental Inc. Add relevant data to a catalog run using Xerox digital technology and their client, Reader's Digest Canada, has 74% more sales.
There's a new way to look at it.
Transcontinental Inc. thought a digital print solution could achieve a response breakthrough for Reader's Digest, one of the world's most successful direct marketers. A call to the digital experts from the Xerox 1:1 Lab more than proved them right. Using a Reader's Digest database and Xerox digital printing technology, personalized direct mail was created to test against a traditional direct mail campaign. The result? The 1-to-1 messaging outperformed the traditional by 74%. The more personalized messages simply had more pull. Could you benefit from our digital advantage? Just ask the pros at Reader's Digest and Transcontinental.
xerox.com/printing 1-800-ASK-XEROX
xerox

Copyright © 2012Pearson Education, Inc.
Publishing as Prentice Hall

The Company's Microenvironment

Suppliers

- Provide the resources to produce goods and services
- Treat as partners to provide customer value

Copyright © 2012Pearson Education, Inc.
Publishing as Prentice Hall

The Company's Microenvironment

Marketing Intermediaries

Help the company to promote, sell and distribute its products to final buyers

Copyright © 2012Pearson Education, Inc.
Publishing as Prentice Hall

The Company's Microenvironment

Types of Marketing Intermediaries

Resellers

Physical distribution firms

Marketing services agencies

Financial intermediaries

Copyright © 2012Pearson Education, Inc.
Publishing as Prentice Hall

The Company's Microenvironment

Competitors

- Firms must gain strategic advantage by positioning their offerings against competitors' offerings

Copyright © 2012Pearson Education, Inc.
Publishing as Prentice Hall

The Company's Microenvironment

Publics

- Any group that has an actual or potential interest in or impact on an organization's ability to achieve its objectives
  - Financial publics
  - Media publics
  - Government publics
  - Citizen-action publics
  - Local publics
  - General public
  - Internal publics

Copyright © 2012Pearson Education, Inc.
Publishing as Prentice Hall

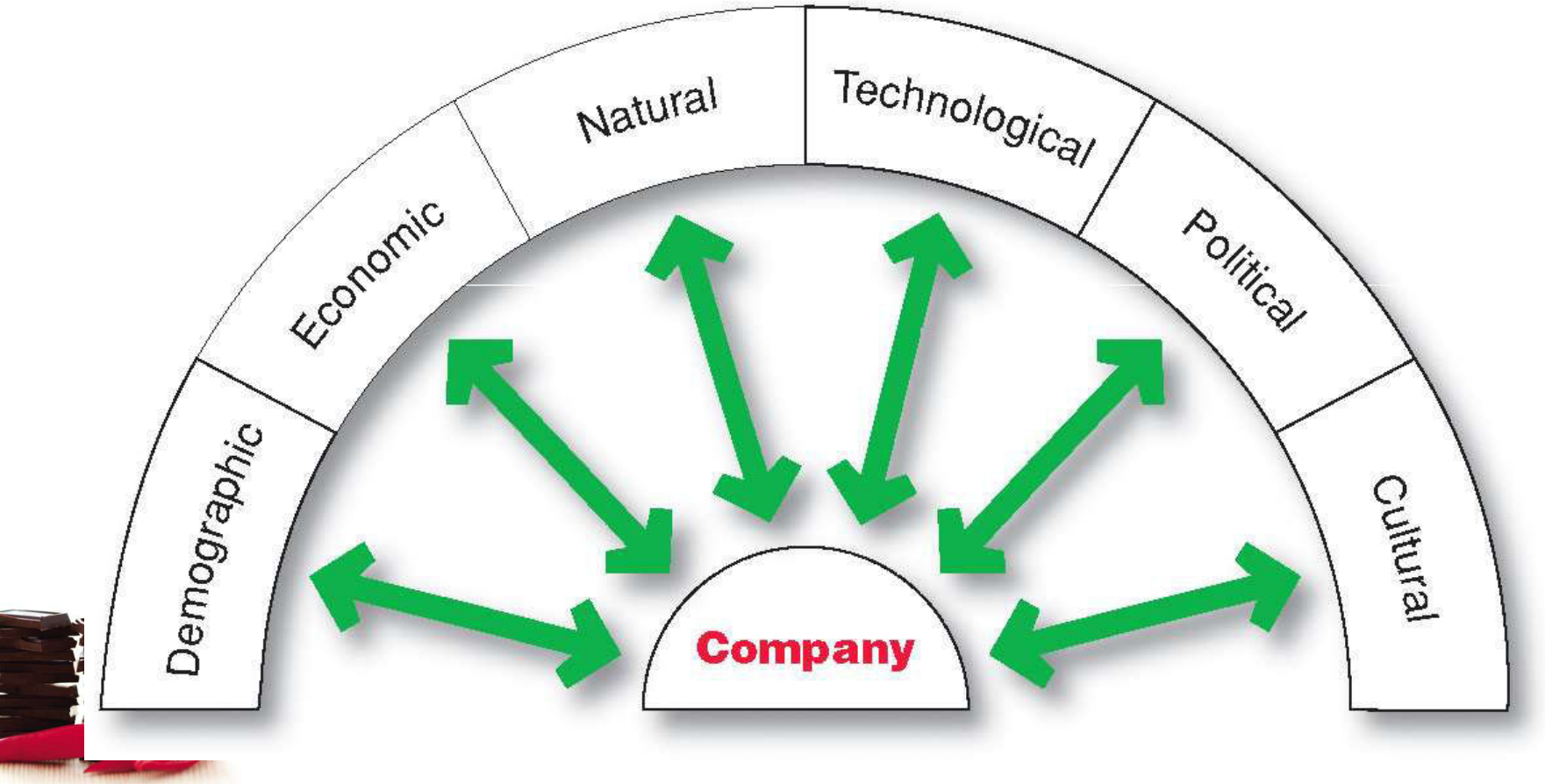
The Company's Microenvironment

Customers

- Consumer markets
- Business markets
- Government markets
- International markets

Copyright © 2012Pearson Education, Inc.
Publishing as Prentice Hall

The Company's Macroenvironment



Copyright © 2012Pearson Education, Inc.
Publishing as Prentice Hall

The Company's Macroenvironment

Demographic Environment

Demography: the study of human populations--size, density, location, age, gender, race, occupation, and other statistics

- **Demographic environment:** involves people, and people make up markets
- **Demographic trends:** shifts in age, family structure, geographic population, educational characteristics, and population diversity

Copyright © 2012Pearson Education, Inc.
Publishing as Prentice Hall

The Company's Macroenvironment

Demographic Environment

- Changing age structure of the population
  - Baby boomers include people born between 1946 and 1964
  - Most affluent Americans

Copyright © 2012Pearson Education, Inc.
Publishing as Prentice Hall

The Company's Macroenvironment

Demographic Environment

- Generation X includes people born between 1965 and 1976
  - High parental divorce rates
  - Cautious economic outlook
  - Less materialistic
  - Family comes first

Copyright © 2012Pearson Education, Inc.
Publishing as Prentice Hall

The Company's Macroenvironment

Demographic Environment

- Millennials (gen Y or echo boomers) include those born between 1977 and 2000
  - Comfortable with technology
  - Tweens (ages 8–12)
  - Teens (13–19)
  - Young adults (20's)

Copyright © 2012Pearson Education, Inc.
Publishing as Prentice Hall

The Company's Macroenvironment

Demographic Environment

Generational marketing is important in segmenting people by lifestyle of life state instead of age

Copyright © 2012Pearson Education, Inc.
Publishing as Prentice Hall

The Company's Macroenvironment

Demographic Environment

More people are:

- Divorcing or separating
- Choosing not to marry
- Choosing to marry later
- Marrying without intending to have children

Increasing number of working women

Increasing number of stay-at-home dads

Copyright © 2012Pearson Education, Inc.
Publishing as Prentice Hall

The Company's Macroenvironment

Demographic Environment

- Growth in U.S. West and South and decline in Midwest and Northeast
- Move from rural to metropolitan areas
- Change in where people work
  - Telecommuting
  - Home office

Copyright © 2012Pearson Education, Inc.
Publishing as Prentice Hall

The Company's Macroenvironment

Demographic Environment

- Changes in the Workforce
  - More educated
  - More white collar

Copyright © 2012Pearson Education, Inc.
Publishing as Prentice Hall

The Company's Macroenvironment

Demographic Environment
Increased Diversity

Markets are becoming more diverse

- International
- National

- Includes:
  - Ethnicity
  - Gay and lesbian
  - Disabled

Copyright © 2012Pearson Education, Inc.
Publishing as Prentice Hall

The Company's Macroenvironment

Economic Environment

Economic environment consists of factors that affect consumer purchasing power and spending patterns

- Industrial economies are richer markets
- Subsistence economies consume most of their own agriculture and industrial output

Copyright © 2012Pearson Education, Inc.
Publishing as Prentice Hall

The Company's Macroenvironment

Economic Environment

Value marketing

offering financially cautious buyers greater value—

the right combination of quality and service at a fair price

Copyright © 2012Pearson Education, Inc.
Publishing as Prentice Hall

The Company's Macroenvironment

Natural Environment

Natural environment: natural resources that are needed as inputs by marketers or that are affected by marketing activities

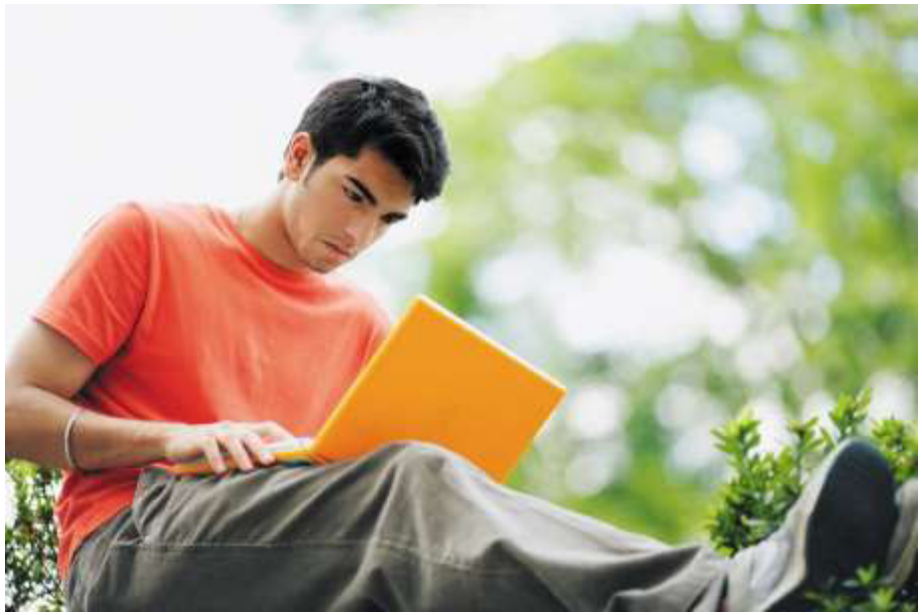
- Trends
  - Increased shortages of raw materials
  - Increased pollution
  - Increased government intervention
  - Increased environmentally sustainable strategies

Copyright © 2012Pearson Education, Inc.
Publishing as Prentice Hall

The Company's Macroenvironment

Technological Environment

- Most dramatic force in changing the marketplace
- New products, opportunities
- Concern for the safety of new products



Copyright © 2012Pearson Education, Inc.
Publishing as Prentice Hall

The Company's Macroenvironment

Political and Social Environment

Political environment

laws, government agencies, and pressure groups that influence or limit various organizations and individuals in a given society

Copyright © 2012Pearson Education, Inc.
Publishing as Prentice Hall

The Company's Macroenvironment

Political and Social Environment

- Legislation regulating business
  - Increased legislation
  - Changing government agency enforcement
- Increased emphasis on ethics
  - Socially responsible behavior
  - Cause-related marketing

Copyright © 2012Pearson Education, Inc.
Publishing as Prentice Hall

The Company's Macroenvironment

Cultural Environment

Cultural environment consists of institutions and other forces that affect a society's basic values, perceptions, and behaviors

Copyright © 2012Pearson Education, Inc.
Publishing as Prentice Hall

The Company's Macroenvironment

Cultural Environment

Persistence of Cultural Values

Core beliefs and values are persistent and are passed on from parents to children and are reinforced by schools, churches, businesses, and government

Secondary beliefs and values are more open to change and include people's views of themselves, others, organization, society, nature, and the universe

Copyright © 2012Pearson Education, Inc.
Publishing as Prentice Hall

The Company's Macroenvironment

Cultural Environment

Shifts in Secondary Cultural Values

- People's view of themselves
  - People vary in their emphasis on serving themselves versus serving others.
- People's view of others
  - More "cocooning" – staying home, home cooked meals

Copyright © 2012Pearson Education, Inc.
Publishing as Prentice Hall

The Company's Macroenvironment

Cultural Environment

Shifts in Secondary Cultural Values

- People's view of organizations
  - Decline of loyalty toward companies
- People's view of society
  - Patriots defend it
  - Reformers want to change it
  - Malcontents want to leave it

Copyright © 2012Pearson Education, Inc.
Publishing as Prentice Hall

The Company's Macroenvironment

Cultural Environment

Shifts in Secondary Cultural Values

- People's view of nature
  - Some feel ruled by it
  - Some feel in harmony with it
  - Some seek to master it
- People's view of the universe
  - Renewed interest in spirituality
  - Developed more permanent values
    - family, community, earth, faith, ethics

Copyright © 2012Pearson Education, Inc.
Publishing as Prentice Hall

Responding to the Marketing Environment

Views on Responding

Uncontrollable	Proactive	Reactive
• React and adapt to forces in the environment	• Aggressive actions to affect forces in the environment	• Watching and reacting to forces in the environment

Copyright © 2012Pearson Education, Inc.
Publishing as Prentice Hall

This work is protected by United States copyright laws and is provided solely for the use of instructors in teaching their courses and assessing student learning. Dissemination or sale of any part of this work (including on the World Wide Web) will destroy the integrity of the work and is not permitted. The work and materials from it should never be made available to students except by instructors using the accompanying text in their classes. All recipients of this work are expected to abide by these restrictions and to honor the intended pedagogical purposes and the needs of other instructors who rely on these materials.

All rights reserved. No part of this publication may be reproduced, stored in a retrieval system, or transmitted, in any form or by any means, electronic, mechanical, photocopying, recording, or otherwise, without the prior written permission of the publisher. Printed in the United States of America.

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Copyright © 2012Pearson Education, Inc.
Publishing as Prentice Hall

I t 's good and good for you

Chapter Four

Managing Marketing Information to Gain Customer Insights

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Learning Objectives

Topic Outline

- Marketing Information and Customer Insights
- Assessing Marketing Information Needs
- Developing Marketing Information
- Marketing Research
- Analyzing and Using Marketing Information
- Other Marketing Information Considerations

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Marketing Information and Customer Insights

Customer Insights are:

- Fresh and deep insights into customers needs and wants
- Difficult to obtain
  - Not obvious
  - Customer's unsure of their behavior
- Better information and more effective use of existing information

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Marketing Information and Customer Insights

Customer Insights

- Companies are forming customer insights teams
  - Include all company functional areas
  - Collect information from a wide variety of sources
  - Use insights to create more value for their customers

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Marketing Information and Customer Insights

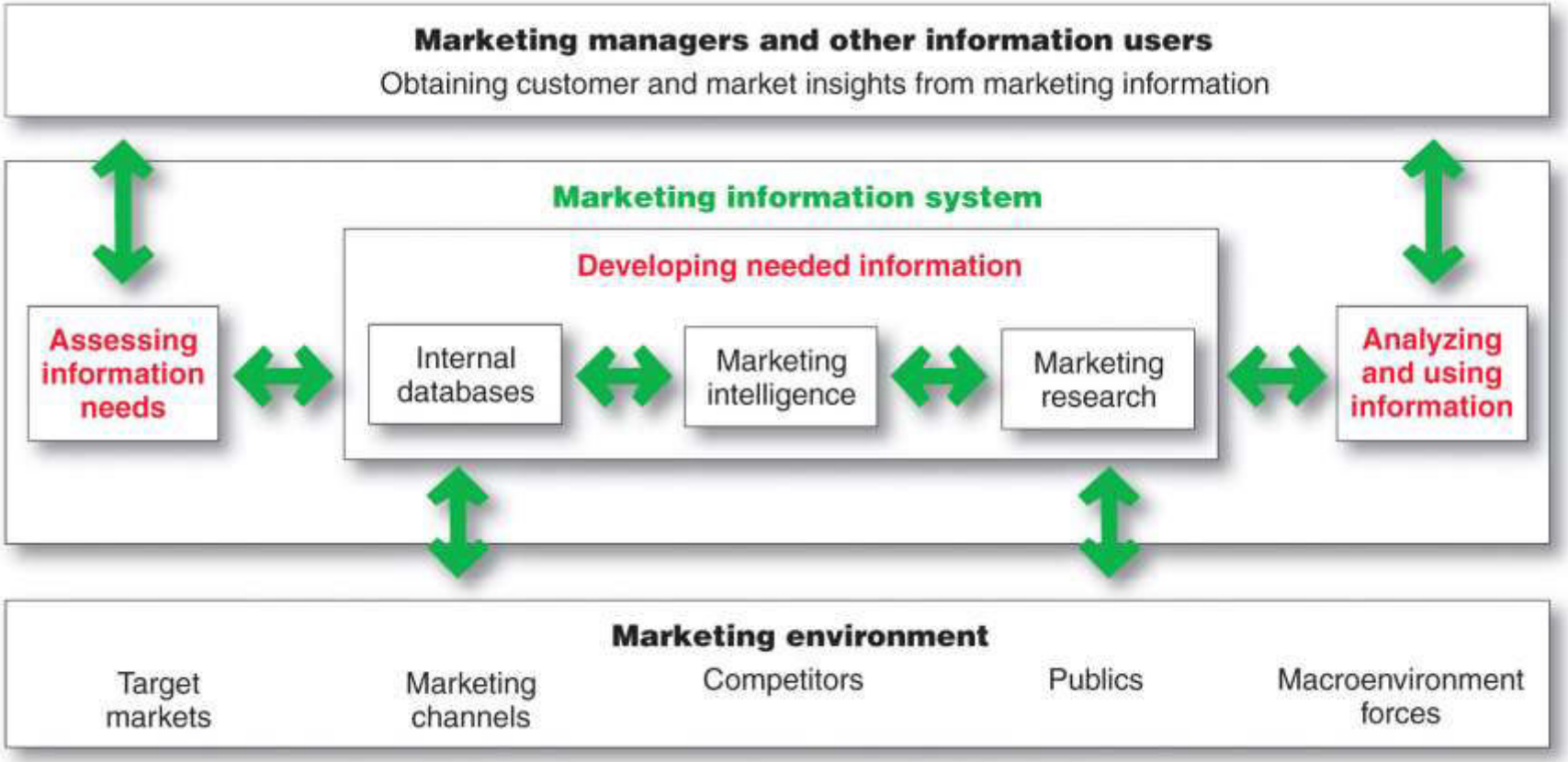
Marketing Information Systems (MIS)

Marketing information system (MIS) consists of people and procedures for:

- Assessing the information needs
- Developing needed information
- Helping decision makers use the information for customer

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Marketing Information System



Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Assessing Marketing Information Needs

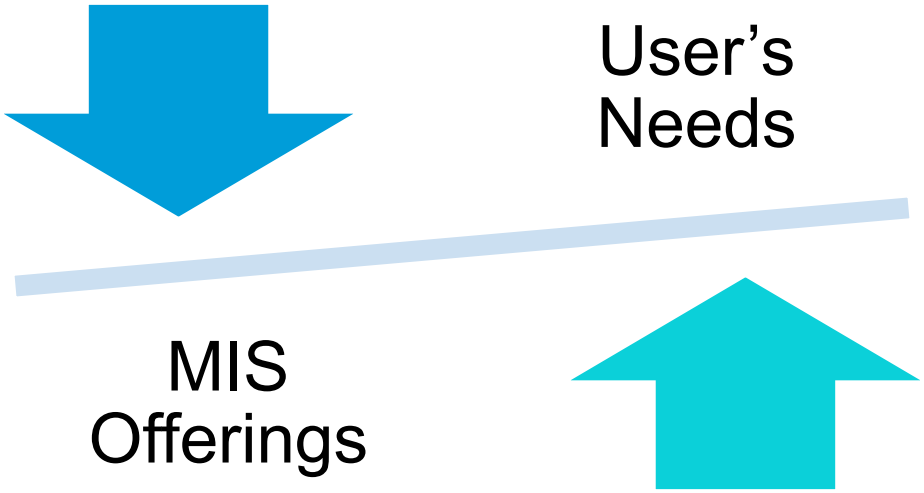
MIS provides information to the company's marketing and other managers and external partners such as suppliers, resellers, and marketing service agencies

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Assessing Marketing Information Needs

Characteristics of a Good MIS

- Balancing what the information users would like to have against what they need and what is feasible to offer



Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Developing Marketing Information

Marketers obtain information from

- Internal data
- Marketing intelligence
- Marketing research

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Developing Marketing Information

Internal Data

Internal databases are electronic collections of consumer and market information obtained from data sources within the company network

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Developing Marketing Information

Competitive Marketing Intelligence

The systematic collection and analysis
of publicly available information
about consumers, competitors
and developments in the marketplace

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Developing Marketing Information

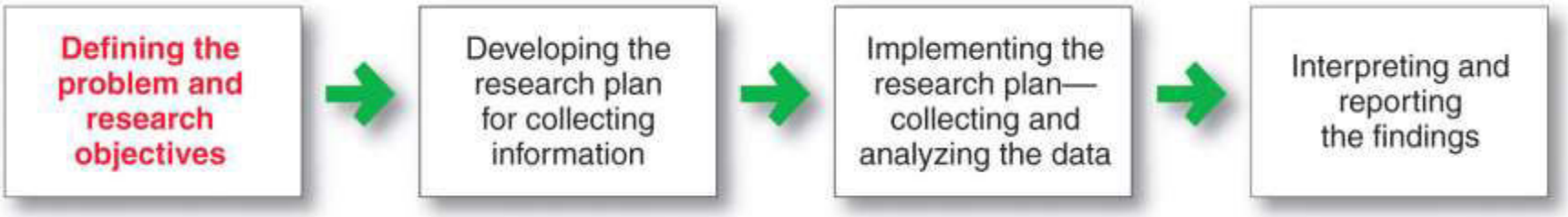
Marketing Research

- **Marketing research** is the systematic design, collection, analysis, and reporting of data relevant to a specific marketing situation facing an organization

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Developing Marketing Information

Steps in the Marketing Research Process


Defining the problem and research objectives
Developing the research plan for collecting information
Implementing the research plan—collecting and analyzing the data
Interpreting and reporting the findings

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Developing Marketing Information

Marketing Research

Defining the Problem and Research Objectives

Exploratory research

Descriptive research

Causal research

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Developing Marketing Information

Marketing Research
Developing the Research Plan

- Outlines sources of existing data
- Spells out the specific research approaches, contact methods, sampling plans, and instruments to gather data

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Developing Marketing Information

Marketing Research
Written Research Plan Includes:

Management problem

↓

Research objectives

↓

Information needed

↓

How the results will help management decisions

↓

Budget

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

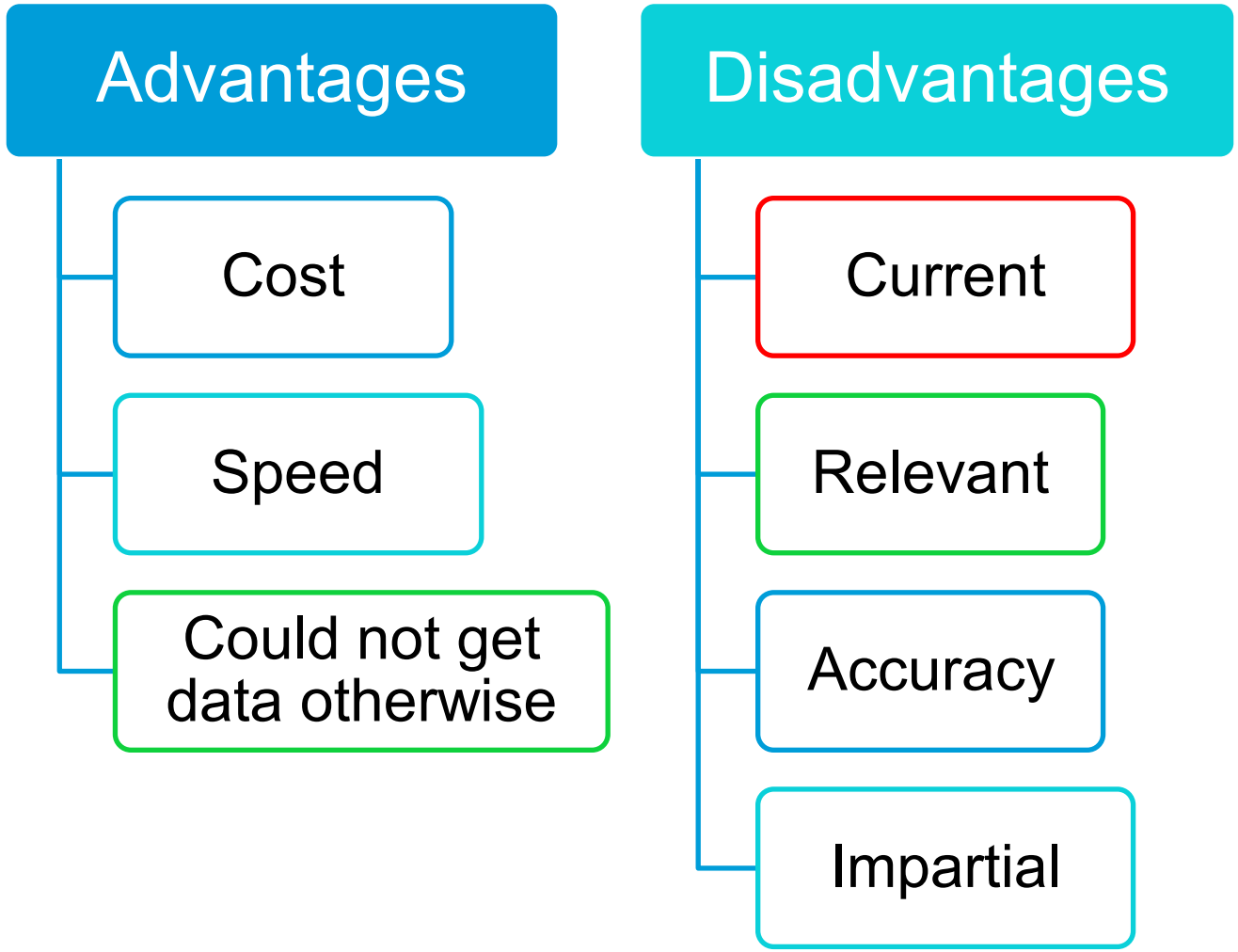
Developing Marketing Information

Marketing Research
Developing the Research Plan

Secondary data consists of information that already exists somewhere, having been collected for another purpose

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Developing Marketing Information
Secondary Data



Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Developing Marketing Information

Marketing Research
Developing the Research Plan

Primary data consists of information gathered for the special research plan

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Developing Marketing Information

Marketing Research

Planning Primary Data Collection

- Research approaches
- Contact methods
- Sampling plan
- Research instruments

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Developing Marketing Information

Market Research
Research Approaches

Observational research involves gathering primary data by observing relevant people, actions, and situations

Ethnographic research involves sending trained observers to watch and interact with consumers in their natural environment

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Developing Marketing Information

Market Research
Research Approaches

Survey research is the most widely used method and is best for descriptive information—knowledge, attitudes, preferences, and buying behavior

- Flexible
- People can be unable or unwilling to answer
- Gives misleading or pleasing answers
- Privacy concerns

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Developing Marketing Information

Market Research
Research Approaches

Experimental research is best for gathering causal information—cause-and-effect relationships

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Developing Marketing Information

Strengths and Weakness of Contact Methods

	Mail	Telephone	Personal	Online
Flexibility	Poor	Good	Excellent	Good
Quantity of data collected	Good	Fair	Excellent	Good
Control of interviewer effects	Excellent	Fair	Poor	Fair
Control of sample	Fair	Excellent	Good	Excellent
Speed of data collection	Poor	Excellent	Good	Excellent
Response rate	Poor	Poor	Good	Good
Cost	Good	Fair	Poor	Excellent

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Developing Marketing Information

Marketing Research Contact Methods

- Focus Groups
  - Six to 10 people
  - Trained moderator
  - Challenges
    - Expensive
    - Difficult to generalize from small group
    - Consumers not always open and honest

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Developing Marketing Information

Marketing Research Contact Methods

Online marketing research	Internet surveys	Online panels
Online experiments	Click-stream data	Online focus groups

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Developing Marketing Information

Marketing Research
Online Research

Advantages

- Low cost
- Speed
- Higher response rates
- Good for hard to reach groups

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Developing Marketing Information

Marketing Research
Sampling Plan

Sample is a segment of the population selected for marketing research to represent the population as a whole

- Who is to be studied?
- How many people should be studied?
- How should the people be chosen?

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Developing Marketing Information

Marketing Research Sampling Plan – Types of Samples

Probability Sample	
Simple random sample	Every member of the population has a known and equal chance of selection
Stratified random sample	The population is divided into mutually exclusive groups and random samples are drawn from each group
Cluster (area) sample	The population is divided into mutually exclusive groups and the researcher draws a sample
Nonprobability Sample	
Convenience sample	The research selects the easiest population members
Judgment sample	The researcher uses their judgment to select population members
Quota sample	The researcher finds and interviews a prescribed number of people in each of several categories

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Developing Marketing Information

Marketing Research
Research Instruments

Questionnaires

- Most common
- Administered in person, by phone, or online
- Flexible
- Research must be careful with wording and ordering of questions

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Developing Marketing Information

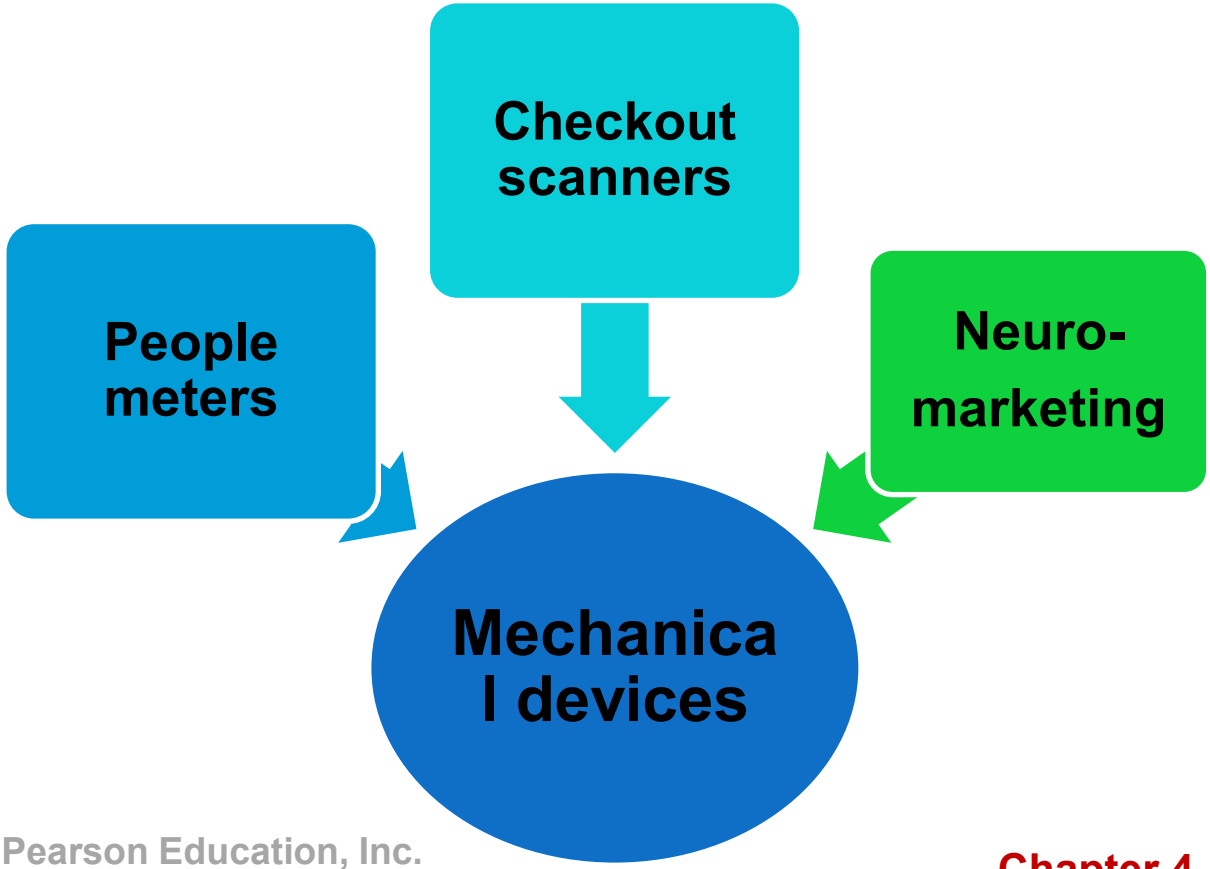
Marketing Research
Research Instruments—Questionnaires

- Closed-end questions include all possible answers, and subjects make choices among them
  - Provide answers that are easier to interpret and tabulate
- Open-end questions allow respondents to answer in their own words
  - Useful in exploratory research

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Developing Marketing Information

Marketing Research
Research Instruments



Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Developing Marketing Information

Marketing Research
Implementing the Research Plan

Collecting the information

Processing the information

Analyzing the information

Interpret findings

Draw conclusions

Report to management

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Analyzing and Using Marketing Information

Customer Relationship Management (CRM)

Managing detailed information about individual customers and carefully managing customer touch points to maximize customer loyalty.

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Analyzing and Using Marketing Information

Customer Relationship Management Touchpoints

- Customer purchases
- Sales force contacts
- Service and support calls
- Web site visits
- Satisfaction surveys
- Credit and payment interactions
- Research studies

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Distributing and Using Marketing Information

Information distribution involves entering information into databases and making it available in a time-useable manner

- Intranet provides information to employees and other stakeholders
- Extranet provides information to key customers and suppliers

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Other Marketing Information Considerations

Marketing Research in Small Businesses and Nonprofit Organizations

International Market Research

Public Policy and Ethics

- **Customer privacy**
- **Misuse of research findings**

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

This work is protected by United States copyright laws and is provided solely for the use of instructors in teaching their courses and assessing student learning. Dissemination or sale of any part of this work (including on the World Wide Web) will destroy the integrity of the work and is not permitted. The work and materials from it should never be made available to students except by instructors using the accompanying text in their classes. All recipients of this work are expected to abide by these restrictions and to honor the intended pedagogical purposes and the needs of other instructors who rely on these materials.

All rights reserved. No part of this publication may be reproduced, stored in a retrieval system, or transmitted, in any form or by any means, electronic, mechanical, photocopying, recording, or otherwise, without the prior written permission of the publisher. Printed in the United States of America.

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

I t 's good and good for you

Chapter Five

Consumer Markets and Consumer Buyer Behavior

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Consumer Markets and Consumer Buyer Behavior

Topic Outline

- Model of Consumer Behavior
- Characteristics Affecting Consumer Behavior
- Types of Buying Decision Behavior
- The Buyer Decision Process
- The Buyer Decision Process for New Products

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

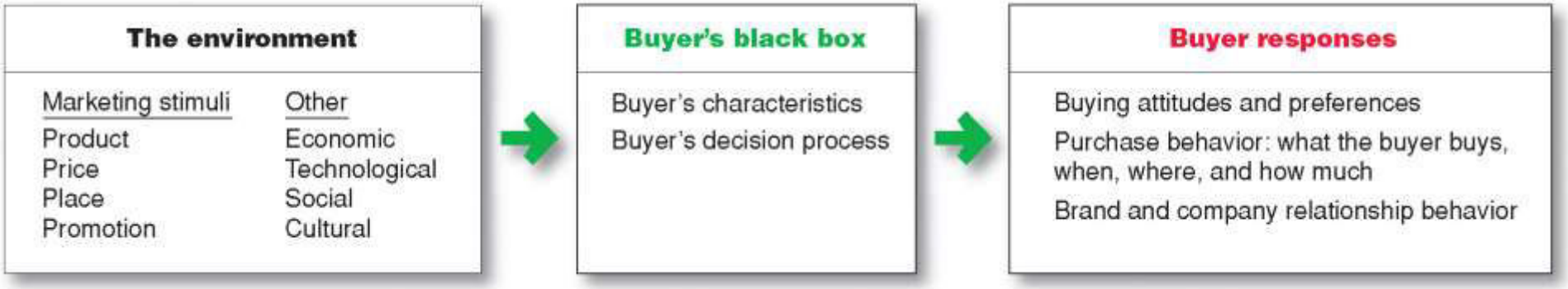
Model of Consumer Behavior

Consumer buyer behavior : the buying behavior of final consumers, individuals and households, who buy goods and services for personal consumption

Consumer market : all of the personal consumption of final consumers

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

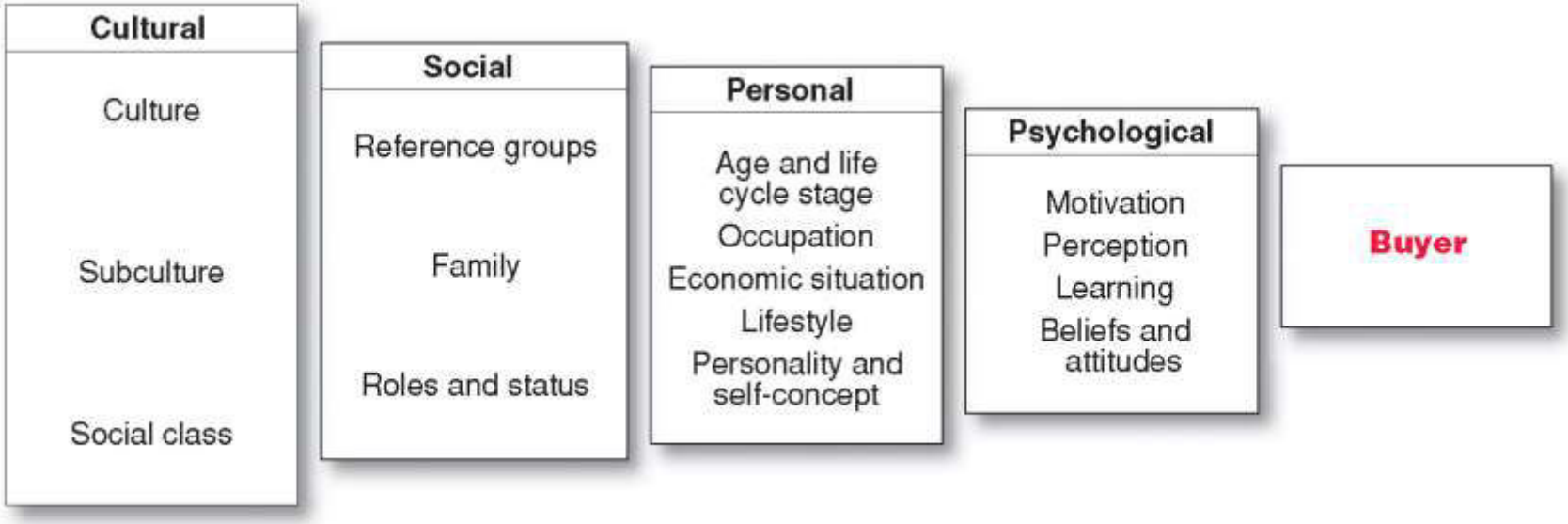
Model of Consumer Behavior



Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Characteristics Affecting Consumer Behavior

Factors Influencing Consumer Behavior



Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Characteristics Affecting Consumer Behavior

Culture is the learned values, perceptions, wants, and behavior from family and other important institutions

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Characteristics Affecting Consumer Behavior

Subculture are groups of people within a culture with shared value systems based on common life experiences

and situations

- Hispanic American
- African American
- Asian American
- Mature consumers

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Characteristics Affecting Consumer Behavior

Social classes are society's relatively permanent and ordered divisions whose members share similar values, interests, and behaviors

- Measured by a combination of occupation, income, education, wealth, and other variables

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Major American Social Classes

America's social classes show distinct brand preferences. Social class is not determined by a single factor, but by a combination of all of these factors.

Wealth
Education
Occupation
Income

Upper Class
Upper Uppers (1 percent): The social elite who live on inherited wealth. They give large sums to charity, own more than one home, and send their children to the finest schools.

Lower Uppers (2 percent): Americans who have earned high income or wealth through exceptional ability. They are active in social and civic affairs and buy expensive homes, educations, and cars.

Middle Class
Upper Middles (12 percent): Professionals, independent businesspersons, and corporate managers who possess neither family status nor unusual wealth. They believe in education, are joiners and highly civic minded, and want the "better things in life."

Middle Class (32 percent): Average-pay white- and blue-collar workers who live on "the better side of town." They buy popular products to keep up with trends. Better living means owning a nice home in a nice neighborhood with good schools.

Working Class
Working Class (38 percent): Those who lead a "working-class lifestyle," whatever their income, school background, or job. They depend heavily on relatives for economic and emotional support, for advice on purchases, and for assistance in times of trouble.

Lower Class
Upper Lowers (9 percent): The working poor. Although their living standard is just above poverty, they strive toward a higher class. However, they often lack education and are poorly paid for unskilled work.

Lower Lowers (7 percent): Visibly poor, often poorly educated unskilled laborers. They are often out of work and some depend on public assistance. They tend to live a day-to-day existence.

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Characteristics Affecting Consumer Behavior

Groups and Social Networks

Membership Groups	Aspirational Groups	Reference Groups
• Groups with direct influence and to which a person belongs	• Groups an individual wishes to belong to	• Groups that form a comparison or reference in forming attitudes or behavior

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Characteristics Affecting Consumer Behavior

Groups and Social Networks

- Word-of-mouth influence and buzz marketing
  - **Opinion leaders** are people within a reference group who exert social influence on others
  - Also called *influentials* or *leading adopters*
  - Marketers identify them to use as brand ambassadors

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Characteristics Affecting Consumer Behavior

Groups and Social Networks

- Online Social Networks are online communities where people socialize or exchange information and opinions
- Include blogs, social networking sites (facebook), virtual worlds (second life)

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Characteristics Affecting Consumer Behavior

Social Factors

- Family is the most important consumer-buying organization in society
- Social roles and status are the groups, family, clubs, and organizations that a person belongs to that can define role and social status

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Characteristics Affecting Consumer Behavior

Personal Factors

- Age and life-cycle stage
- RBC Royal Band stages
  - Youth: younger than 18
  - Getting started: 18–35
  - Builders: 35–50
  - Accumulators: 50–60
  - Preservers: over 60

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Characteristics Affecting Consumer Behavior

Personal Factors

Occupation affects the goods and services bought by consumers

Economic situation includes trends in:

- Personal income
- Savings
- Interest rates

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Characteristics Affecting Consumer Behavior

Personal Factors

Lifestyle is a person's pattern of living as expressed in his or her psychographics

- Measures a consumer's AIOs (activities, interests, opinions) to capture information about a person's pattern of acting and interacting in the environment

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Characteristics Affecting Consumer Behavior

Personal Factors

- Personality and self-concept
  - Personality refers to the unique psychological characteristics that lead to consistent and lasting responses to the consumer's environment

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Characteristics Affecting Consumer Behavior

Personal Factors	Dominance	Autonomy
Defensiveness	Adaptability	Aggressiveness

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Characteristics Affecting Consumer Behavior

Psychological Factors

- Motivation
- Perception
- Learning
- Beliefs and attitudes

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Characteristics Affecting Consumer Behavior

Psychological Factors
Motivation

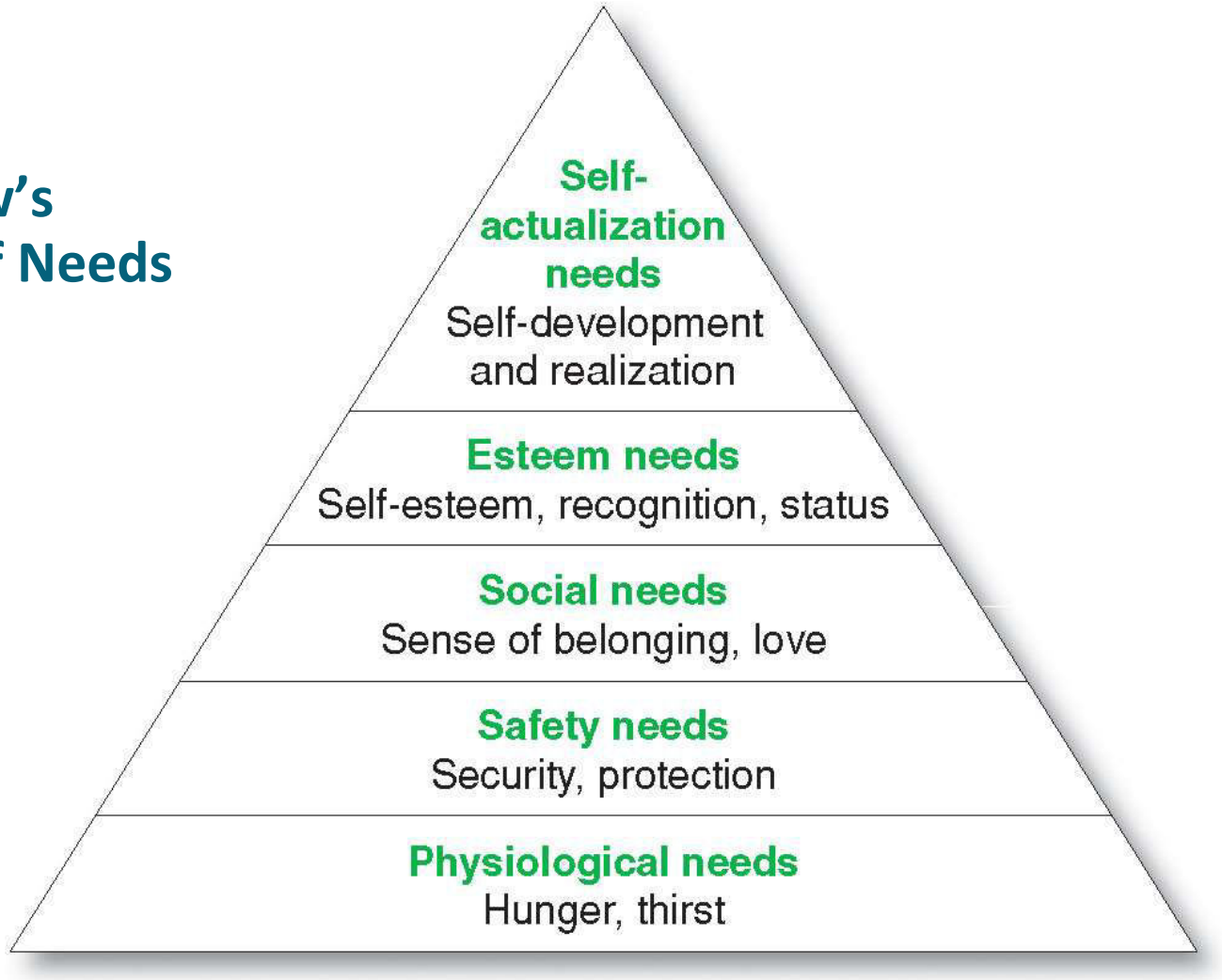
A **motive** is a need that is sufficiently pressing to direct the person to seek satisfaction

Motivation research refers to qualitative research designed to probe consumers' hidden, subconscious motivations

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Characteristics Affecting Consumer Behavior

Maslow's Hierarchy of Needs



Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Characteristics Affecting Consumer Behavior

Psychological Factors

Perception is the process by which people select, organize, and interpret information to form a meaningful picture of the world from three perceptual processes

- Selective attention
- Selective distortion
- Selective retention

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Characteristics Affecting Consumer Behavior

Psychological Factors

Selective attention is the tendency for people to screen out most of the information to which they are exposed

Selective distortion is the tendency for people to interpret information in a way that will support what they already believe

Selective retention is the tendency to remember good points made about a brand they favor and forget good points about competing brands

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Characteristics Affecting Consumer Behavior

Psychological Factors

- **Learning** is the change in an individual's behavior arising from experience and occurs through interplay of:

Drives | **Stimuli** | **Cues**

Responses | **Reinforcement**

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Characteristics Affecting Consumer Behavior

Psychological Factors
Beliefs and Attitudes

Belief is a descriptive thought that a person has about something based on:

- Knowledge
- Opinion
- Faith

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Characteristics Affecting Consumer Behavior

Psychological Factors

Attitudes

describe a person's relatively consistent evaluations, feelings, and tendencies toward an object or idea

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Types of Buying Decision Behavior

Complex buying behavior

Dissonance-reducing buying behavior

Habitual buying behavior

Variety-seeking buying behavior

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Types of Buying Decision Behavior

Four Types of Buying Behavior

	High involvement	Low involvement
Significant differences between brands	Complex buying behavior	Variety-seeking buying behavior
Few differences between brands	Dissonance-reducing buying behavior	Habitual buying behavior

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

The Buyer Decision Process

Buyer Decision Making Process

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

The Buyer Decision Process

Need Recognition

- Occurs when the buyer recognizes a problem or need triggered by:
  - Internal stimuli
  - External stimuli

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

The Buyer Decision Process

Information Search
Sources of Information

- Personal sources—family and friends
- Commercial sources—advertising, Internet
- Public sources—mass media, consumer organizations
- Experiential sources—handling, examining, using the product

jetBlue
JetBlue's CrewBlue Ambassadors Jets To New Heights In It's Third Successful Year
There's no airline hotter than JetBlue. It's defined a new standard for traveling cool. CrewBlue not only organized parties, like Hawaiian-themed "Blue'aus," but also took part in creating a new marketing campaign for the airline. By getting involved in the creation process, they got to see their ideas come to life (and jet for free, too). Reps not only got serious perks, but had the chance to sponsor events and be copilot to brand bigwigs. Not a bad gig for your spare time, huh?

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

The Buyer Decision Process

Evaluation of Alternatives

- How the consumer processes information to arrive at brand choices

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

The Buyer Decision Process

Purchase Decision

- The act by the consumer to buy the most preferred brand
- The purchase decision can be affected by:
  - Attitudes of others
  - Unexpected situational factors

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

The Buyer Decision Process

Post-Purchase Decision

- The satisfaction or dissatisfaction that the consumer feels about the purchase
- Relationship between:
  - Consumer's expectations
  - Product's perceived performance
- The larger the gap between expectation and performance, the greater the consumer's dissatisfaction
- Cognitive dissonance is the discomfort caused by a post-purchase conflict

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

The Buyer Decision Process

Post-Purchase Decision

Customer satisfaction is a key to building profitable relationships with consumers—to keeping and growing consumers and reaping their customer lifetime value

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

The Buyer Decision Process for New Products

Adoption process is the mental process an individual goes through from first learning about an innovation to final regular use.

- Stages in the process include:

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

The Buyer Decision Process for New Products

Influence of Product Characteristics on Rate of Adoption

Relative advantage

Compatibility

Complexity

Divisibility

Communicability

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

This work is protected by United States copyright laws and is provided solely for the use of instructors in teaching their courses and assessing student learning. Dissemination or sale of any part of this work (including on the World Wide Web) will destroy the integrity of the work and is not permitted. The work and materials from it should never be made available to students except by instructors using the accompanying text in their classes. All recipients of this work are expected to abide by these restrictions and to honor the intended pedagogical purposes and the needs of other instructors who rely on these materials.

All rights reserved. No part of this publication may be reproduced, stored in a retrieval system, or transmitted, in any form or by any means, electronic, mechanical, photocopying, recording, or otherwise, without the prior written permission of the publisher. Printed in the United States of America.

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

i t 's good and good for you

Chapter Six

Business Markets and Business Buying Behavior

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Business Markets and Business Buying Behavior

Topic Outline

- Business Markets
- Business Buyer Behavior
- The Business Buying Process
- E-Procurement: Buying on the Internet
- Institutional and Government Markets

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Business Markets

Business buyer behavior refers to the buying behavior of the organizations that buy goods and services for use in production of other products and services that are sold, rented, or supplied to others.

Business buying process is the process where business buyers determine which products and services are needed to purchase, and then find, evaluate, and choose among alternative brands

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Business Markets

Market Structure and Demand

Fewer and larger buyers

Derived demand

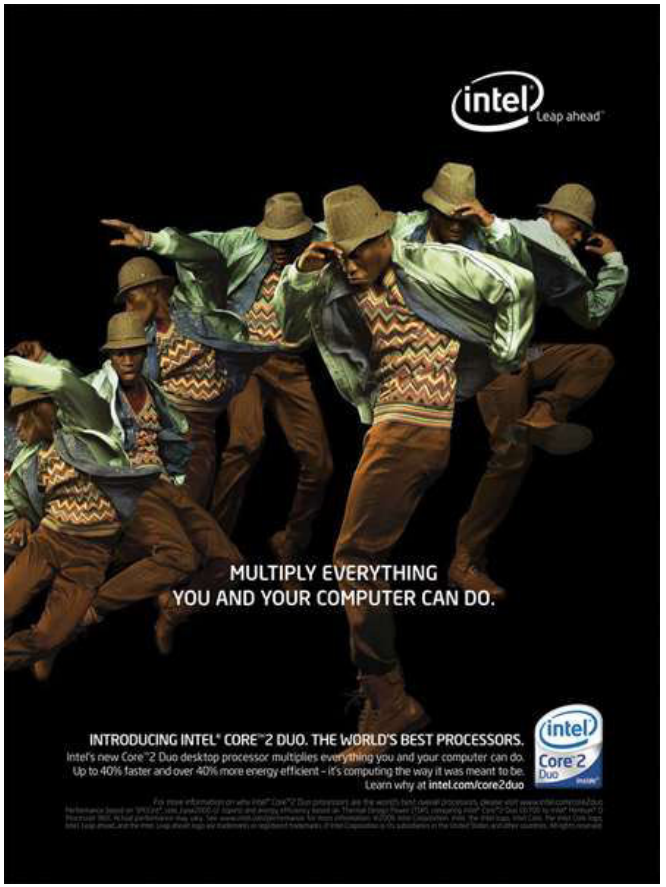
- Inelastic demand
- Fluctuating demand

Buyer and seller dependency

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Business Markets Decision Process

- More complex
- More decision participants
- More professional purchasing effort


intel
Leap ahead
MULTIPLY EVERYTHING
YOU AND YOUR COMPUTER CAN DO.
INTRODUCING INTEL® CORE™2 DUO. THE WORLD'S BEST PROCESSORS.
Intel's new Core™2 Duo desktop processor multiplies everything you and your computer can do.
Up to 40% faster and over 40% more energy efficient – it's computing the way it was meant to be.
Learn why at intel.com/core2duo
intel
Core 2
Duo

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Business Markets

Decision Process

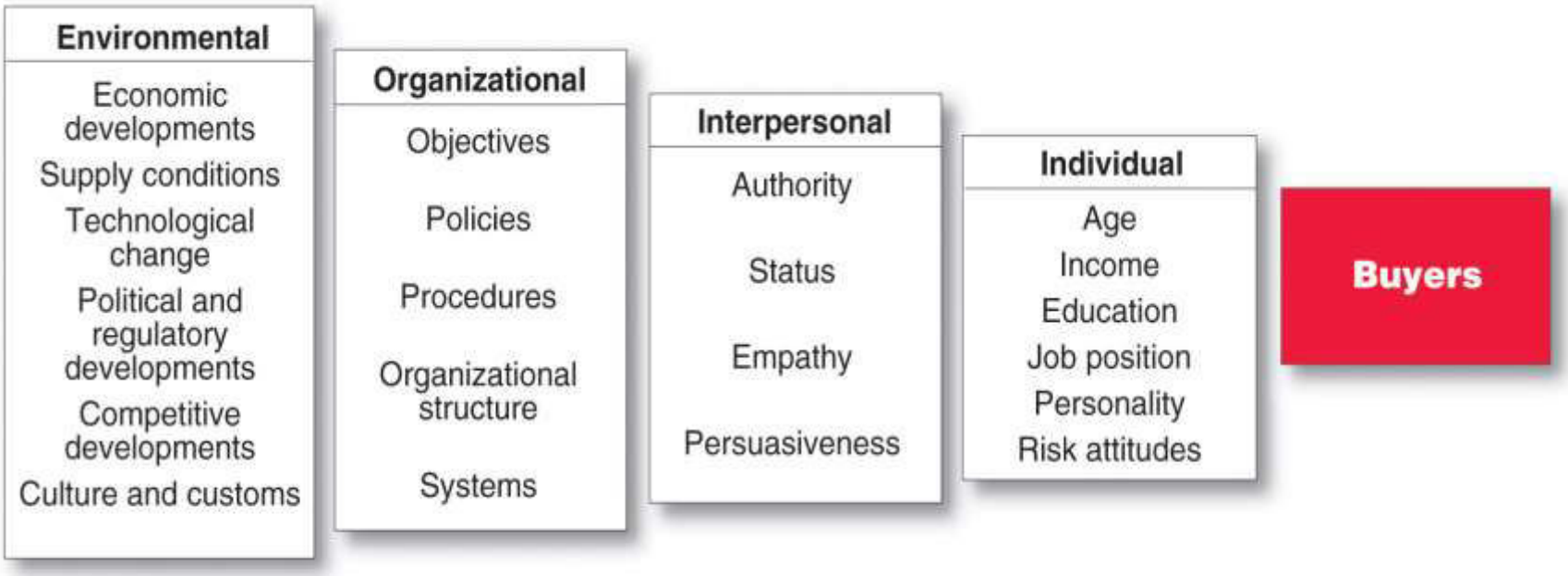
Supplier development

systematic development of networks of supplier-partners to ensure an appropriate and dependable supply of products and materials that they will use in making their own products or resell

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Business Buyer Behavior

The Model of Business Buyer Behavior



Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Business Buyer Behavior

Major Types of Buying Situations

Straight rebuy is a routine purchase decision such as reorder without any modification

Modified rebuy is a purchase decision that requires some research where the buyer wants to modify the product specification, price, terms, or suppliers

New task is a purchase decision that requires thorough research such as a new product

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Business Buyer Behavior

Major Types of Buying Situations

Systems selling

involves the purchase

of a packaged solution

from a single seller

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Business Buyer Behavior

Participants in the Business Buying Process

Buying center is all of the individuals and units that participate in the business decision-making process

- Users
- Influencers
- Buyers
- Deciders
- Gatekeepers

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Business Buyer Behavior

Participants in the Business Buying Process

- Buying center provides a major challenge
- Who participates in the process
  - Their relative authority
  - What evaluation criteria each participant uses
  - Informal participants

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Business Buyer Behavior

Participants in the Business Buying Process

Users are those that will use the product or service

Influencers help define specifications and provide information for evaluating alternatives

Buyers have formal authority to select the supplier and arrange terms of purchase

Deciders have formal or informal power to select and approve final suppliers

Gatekeepers control the flow of information

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Business Buyer Behavior

Major Influences on Business Buyers

Economic Factors

- Price
- Service

Personal Factors

- Emotion

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Business Buyer Behavior

Major Influences on Business Buyers

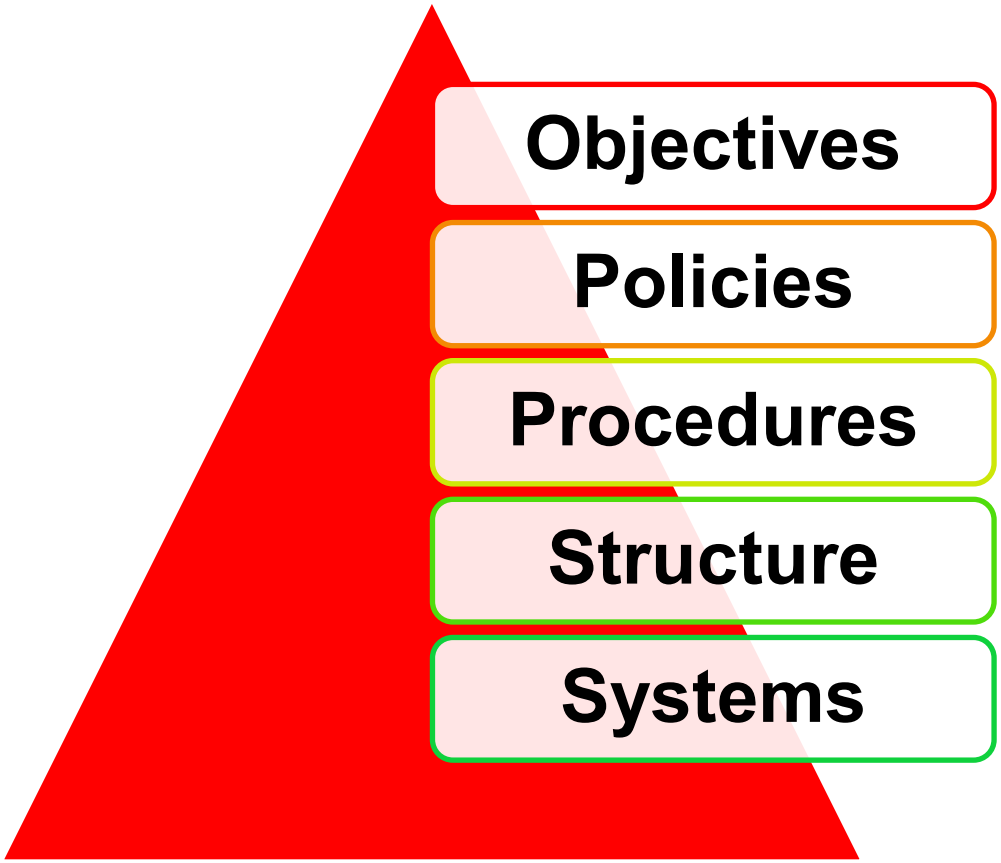
Environmental Factors

- Demand for product
- Economic outlook
- Cost of money
- Supply of Materials
- Technology
- Culture
- Politics
- Competition

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Business Buyer Behavior

Major Influences on Business Buyers
Organizational Factors



Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Business Buyer Behavior

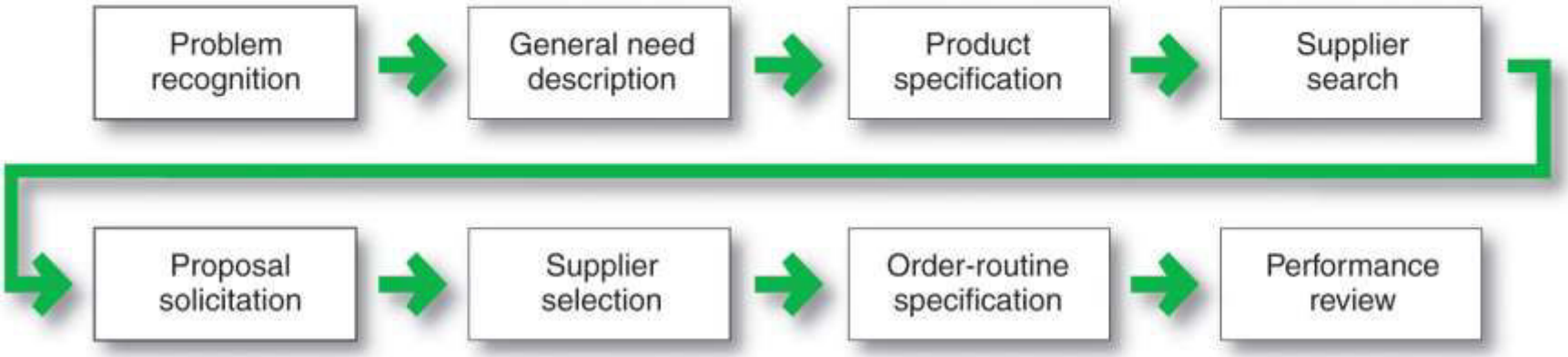
Major Influences on Business Buyers
Individual Factors

Motives	Perceptions	Preferences
Age	Income	Education
	Attitude toward risk	

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Business Buyer Behavior

The Buying Process



Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Business Buyer Behavior

The Buying Process

Problem recognition occurs when someone in the company recognizes a problem or need

- Internal stimuli
  - Need for new product or production equipment
- External stimuli
  - Idea from a trade show or advertising

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Business Buyer Behavior

The Buying Process

General need description describes the characteristics and quantity of the needed item

Product specification describes the technical criteria

Value analysis is an approach to cost reduction where components are studied to determine if they can be redesigned, standardized, or made with less costly methods of production

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Business Buyer Behavior

The Buying Process

Supplier search involves compiling a list of qualified suppliers

Proposal solicitation is the process of requesting proposals from qualified suppliers

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Business Buyer Behavior

The Buying Process

Supplier selection is the process when the buying center creates a list of desired supplier attributes and negotiates with preferred suppliers for favorable terms and conditions

Order-routine specifications is the final order with the chosen supplier and lists all of the specifications and terms of the purchase

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Business Buyer Behavior

The Buying Process

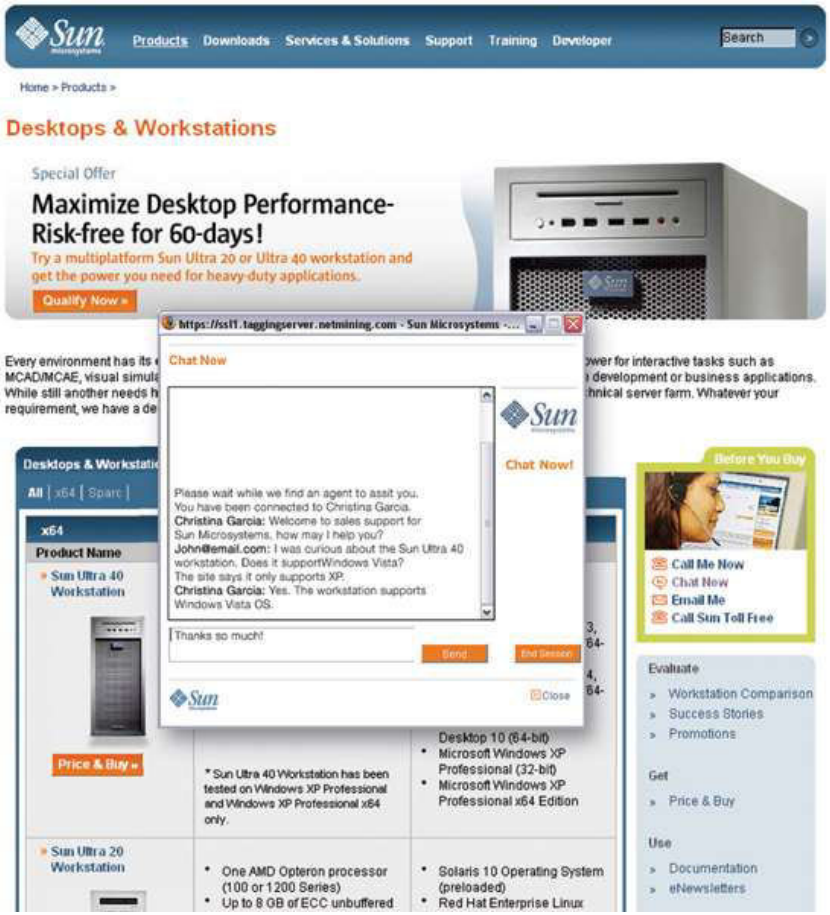
Performance review involves a critique of supplier performance to the purchase terms

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Business Buyer Behavior

E-Procurement

- Online purchasing
- Company-buying sites
- Extranets


Sun
Products
Downloads
Services & Solutions
Support
Training
Developer
Search
Home » Products »
Desktops & Workstations
Special Offer
Maximize Desktop Performance-
Risk-free for 60-days!
Try a multiplatform Sun Ultra 20 or Ultra 40 workstation and get the power you need for heavy-duty applications.
Qualify Now »
Chat Now
Chat Now!
Please wait while we find an agent to assit you.
You have been connected to Christina Garcia.
Christina Garcia: Welcome to sales support for Sun Microsystems, how may I help you?
John@email.com: I was curious about the Sun Ultra 40 workstation. Does it supportWindows Vista?
The site says it only supports XP.
Christina Garcia: Yes. The workstation supports Windows Vista OS.
Thanks so much!
Send
End Session
Close
Desktops & Workstations
All | x64 | Sparc
x64
Product Name
Sun Ultra 40 Workstation
Price & Buy »
* Sun Ultra 40 Workstation has been tested on Windows XP Professional and Windows XP Professional x64 only.
Desktop 10 (64-bit)
Microsoft Windows XP Professional (32-bit)
Microsoft Windows XP Professional x64 Edition
Sun Ultra 20 Workstation
One AMD Opteron processor (100 or 1200 Series)
Up to 8 GB of ECC unbuffered
Solaris 10 Operating System (preloaded)
Red Hat Enterprise Linux
Before You Buy
Call Me Now
Chat Now
Email Me
Call Sun Toll Free
Evaluate
Workstation Comparison
Success Stories
Promotions
Get
Price & Buy
Use
Documentation
eNewsletters

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Business Buyer Behavior

E-Procurement

- Advantages
  - Access to new suppliers
  - Lowers costs
  - Speeds order processing and delivery
  - Shares information
  - Sales
  - Service and support
- Disadvantages
  - Can erode relationships as buyers search for new suppliers
  - Security

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Institutional and Government Markets

Institutional markets consist of hospitals, nursing homes, and prisons that provide goods and services to people in their care

- Characteristics
  - Low budgets
  - "Captive" audience

FEDBIZOPPS.GOV
Federal Business Opportunities
E-GOV USA.GOV
Home
General Info
News
Opportunities
Agencies
Privacy
Welcome to FBO.gov, the U.S. Government's one-stop virtual marketplace. Through this single point-of-entry, commercial vendors and government buyers are invited to post, search, monitor, and retrieve opportunities solicited by the entire Federal contracting community.
Find Opportunities
NO REGISTRATION REQUIRED
Start researching now
Buyers / Engineers
Post, manage, and award opportunities
Vendors / Citizens
Search, monitor, and retrieve opportunities
Location / Agency Administrators
Training videos are now available to familiarize users with the features and functionality of the new FBO.
Watch the Videos
USER GUIDES
ADDITIONAL RESOURCES

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Institutional and Government Markets

Government markets

tend to favor domestic suppliers and require suppliers to submit bids and normally award to the lowest bidder

- Affected by environmental factors
- Non-economic factors considered
  - Minority suppliers
  - Depressed suppliers
  - Small businesses

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

This work is protected by United States copyright laws and is provided solely for the use of instructors in teaching their courses and assessing student learning. Dissemination or sale of any part of this work (including on the World Wide Web) will destroy the integrity of the work and is not permitted. The work and materials from it should never be made available to students except by instructors using the accompanying text in their classes. All recipients of this work are expected to abide by these restrictions and to honor the intended pedagogical purposes and the needs of other instructors who rely on these materials.

All rights reserved. No part of this publication may be reproduced, stored in a retrieval system, or transmitted, in any form or by any means, electronic, mechanical, photocopying, recording, or otherwise, without the prior written permission of the publisher. Printed in the United States of America.

Copyright © 2012Pearson Education, Inc.
Publishing as Prentice Hall

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

i t 's good and good for you

Chapter Seven

Customer-Driven Marketing Strategy:

Creating Value for Target Customers

Copyright © 2012Pearson Education, Inc.
Publishing as Prentice Hall

Customer-Driven Marketing Strategy: Creating Value for Target Customers

Topic Outline

- Customer-Driven Marketing Strategy
- Market Segmentation
- Market Targeting
- Differentiation and Positioning

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Market Segmentation

Market segmentation

Dividing a market into smaller segments with distinct needs, characteristics, or behavior that might require separate marketing strategies or mixes.

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Market Segmentation

Select customers to serve
Segmentation
Divide the total market into smaller segments
Targeting
Select the segment or segments to enter
Create value for targeted customers
Decide on a value proposition
Differentiation
Differentiate the market offering to create superior customer value
Positioning
Position the market offering in the minds of target customers

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

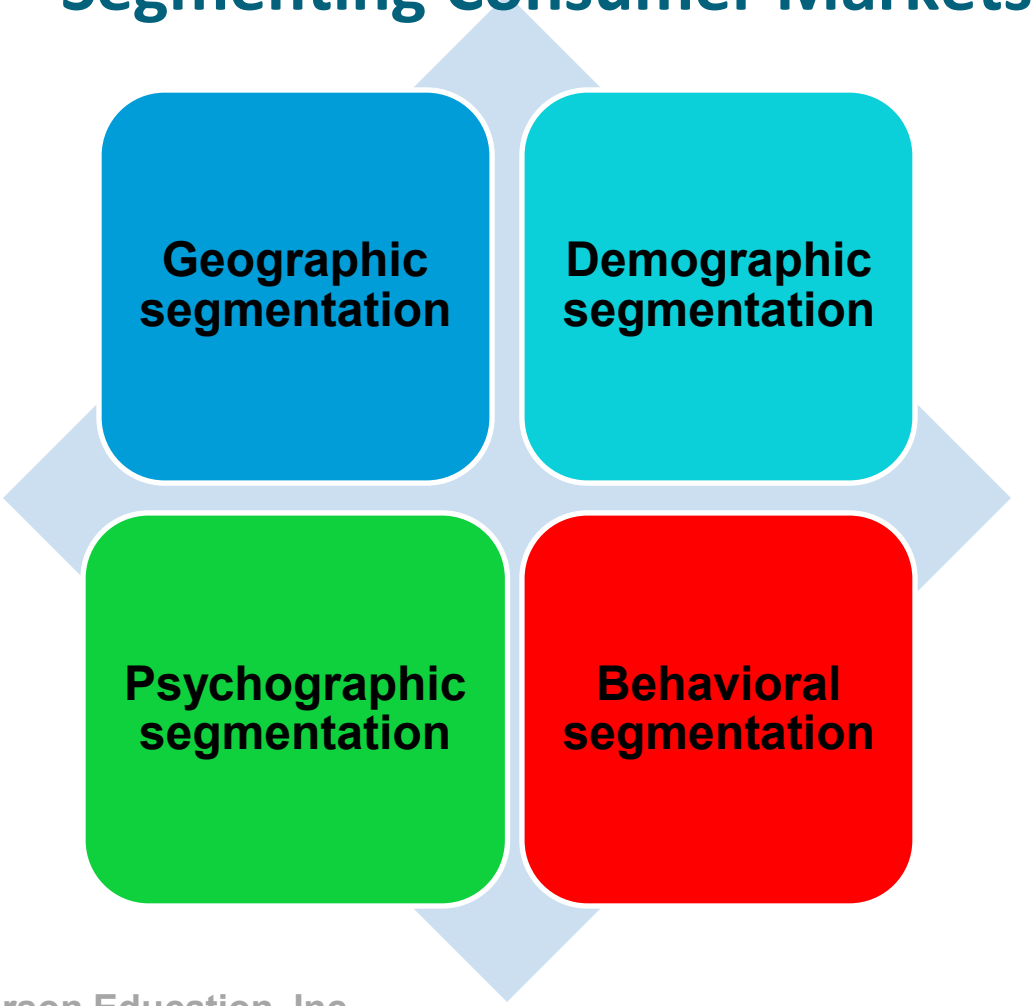
Market Segmentation

- Segmenting consumer markets
- Segmenting business markets
- Segmenting international markets
- Requirements for effective segmentation

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Market Segmentation

Segmenting Consumer Markets



Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Market Segmentation

Segmenting Consumer Markets

- **Geographic segmentation** divides the market into different geographical units such as nations, regions, states, counties, or cities

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Market Segmentation

Segmenting Consumer Markets

Demographic segmentation
divides the market into groups based on variables such as age, gender, family size, family life cycle, income, occupation, education, religion, race, generation, and nationality

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Market Segmentation

Age and life-cycle stage segmentation is the process of offering different products or using different marketing approaches for different age and life-cycle groups

Gender segmentation divides the market based on sex (male or female)

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Market Segmentation

Segmenting Consumer Markets

Income segmentation divides the market into affluent, middle-income or low-income consumers

Psychographic segmentation divides buyers into different groups based on social class, lifestyle, or personality traits

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Market Segmentation

Segmenting Consumer Markets

Behavioral segmentation divides buyers into groups based on their knowledge, attitudes, uses, or responses to a product

- Occasions
- Benefits sought
- User status
- Usage rate
- Loyalty status

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Market Segmentation

Using Multiple Segmentation Bases

Multiple segmentation is used to identify smaller, better-defined target groups

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Market Segmentation

Using Multiple Segmentation Bases

PRIZM NE classifies every American household into 66 unique segments organized into 14 different social groups.

- These groups segment people and locations into marketable groups of like-minded consumers that exhibit unique characteristics and buying behavior based on a host of demographic factors

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Market Segmentation

Segmenting International markets

Geographic location

Economic factors

Political-legal factors

Cultural factors

BUSINESS
This helps you buy what your small business needs.
OPEN
This lets you track, organize, categorize, subdivide, examine, break down, cross-reference, combine and archive online what your small business spends.
Apply now and get an instant decision. Visit OPEN.AMERICANEXPRESS.COM.

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Market Segmentation

Segmenting International Markets

Intermarket segmentation divides consumers into groups with similar needs and buying behaviors even though they are located in different countries

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Market Segmentation

Requirements for Effective Segmentation

To be useful, market segments must be:

- Measurable
- Accessible
- Substantial
- Differentiable
- Actionable

The specialists in left-handed products for over 30 years
ANYTHING
Left
HANDED
Why SHOULD you have to put up with right-handed products?
Have you really ADAPTED or just COMPROMISED

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Market Targeting

Selecting Target Market Segments

Target market consists of a set of buyers who share common needs or characteristics that the company decides to serve

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Market Targeting

Evaluating Market Segments

- Segment size and growth
- Segment structural attractiveness
- Company objectives and resources

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Market Targeting

Target Marketing Strategies

Undifferentiated marketing targets the whole market with one offer

- Mass marketing
- Focuses on common needs rather than what's different

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Market Targeting

Target Marketing Strategies

Differentiated marketing targets several different market segments and designs separate offers for each

- Goal is to achieve higher sales and stronger position
- More expensive than undifferentiated marketing

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Market Targeting

Target Market Strategies

- Concentrated marketing targets a small share of a large market
- Limited company resources
- Knowledge of the market
- More effective and efficient

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Marketing Targeting

Target Market Strategies

Micromarketing is the practice of tailoring products and marketing programs to suit the tastes of specific individuals and locations

- Local marketing
- Individual marketing

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Market Targeting

Target Market Strategies

Local marketing involves tailoring brands and promotion to the needs and wants of local customer groups

- Cities
- Neighborhoods
- Stores

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Market Targeting

Target Market Strategies

Individual marketing involves tailoring products and marketing programs to the needs and preferences of individual customers

- Also known as:
  - One-to-one marketing
  - Mass customization
  - Markets-of-one marketing

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Market Targeting

Choosing a Target Market

Depends on:

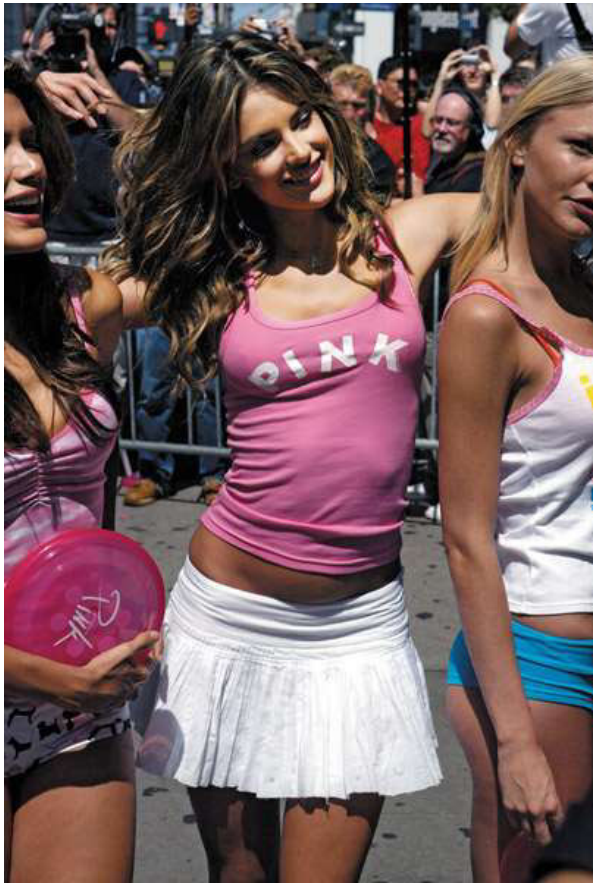
- Company resources
- Product variability
- Product life-cycle stage
- Market variability
- Competitor's marketing strategies

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Market Targeting

Socially Responsible Target Marketing

- Benefits customers with specific needs
- Concern for vulnerable segments
  - Children
    - Alcohol
    - Cigarettes
    - Internet abuses



Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Differentiation and Positioning

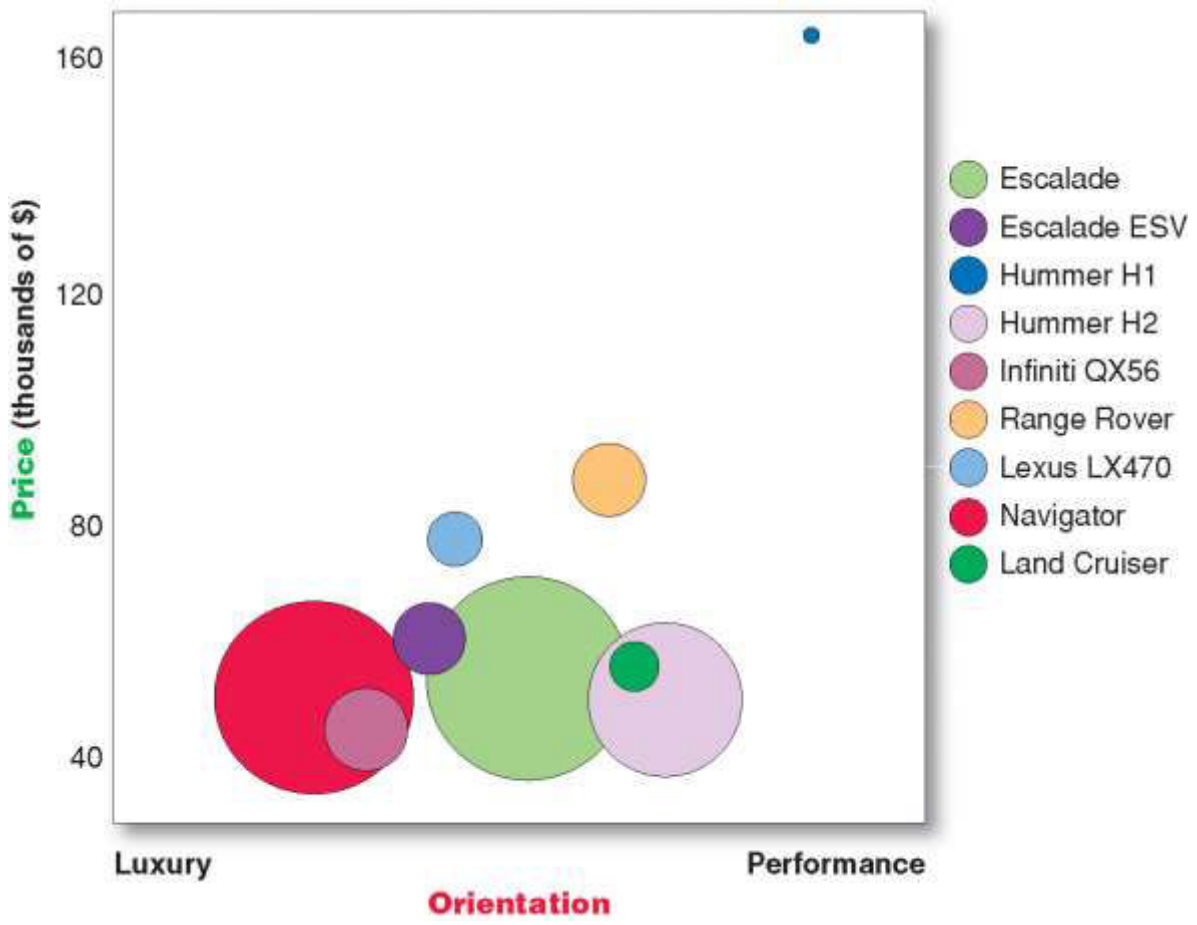
Product position is the way the product is defined by consumers on important attributes—the place the product occupies in consumers' minds relative to competing products

- Perceptions
- Impressions
- Feelings

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Differentiation and Positioning

Positioning maps show consumer perceptions of their brands versus competing products on important buying dimensions



Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Differentiation and Positioning

Choosing a Differentiation and Positioning Strategy

- Identifying a set of possible competitive advantages to build a position
- Choosing the right competitive advantages
- Selecting an overall positioning strategy
- Communicating and delivering the chosen position to the market

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Differentiation and Positioning

Identifying Possible Value Differences and Competitive Advantages

Competitive advantage is an advantage over competitors gained by offering consumers greater value, either through lower prices or by providing more benefits that justify higher prices

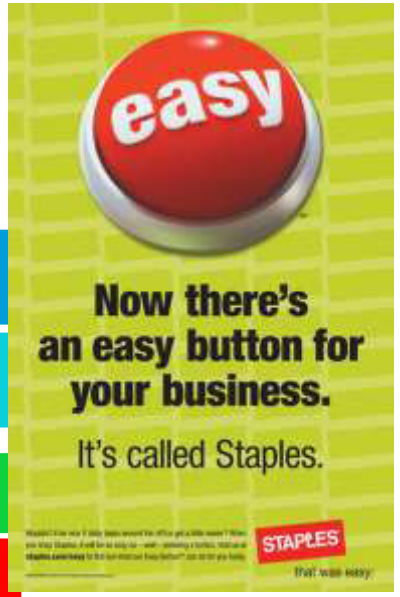
Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Differentiation and Positioning

Choosing a Differentiation and Positioning Strategy

Identifying a set of possible competitive advantages to build a position by providing superior value from:

- Product differentiation
- Service differentiation
- Channel differentiation
- People differentiation
- Image differentiation



Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Differentiation and Positioning

Choosing the Right Competitive Advantage

Difference to promote should be:

- Important
- Distinctive
- Superior
- Communicable
- Preemptive
- Affordable
- Profitable

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Differentiation and Positioning

Selecting an Overall Positioning Strategy

Value proposition
is the full mix of benefits upon which a brand is positioned

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Differentiation and Positioning

Developing a Positioning Statement

- To (target segment and need) our (brand) is (concept) that (point of difference)

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Communication and Delivering the Chosen Position

Choosing the positioning is often easier than implementing the position.

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

This work is protected by United States copyright laws and is provided solely for the use of instructors in teaching their courses and assessing student learning. Dissemination or sale of any part of this work (including on the World Wide Web) will destroy the integrity of the work and is not permitted. The work and materials from it should never be made available to students except by instructors using the accompanying text in their classes. All recipients of this work are expected to abide by these restrictions and to honor the intended pedagogical purposes and the needs of other instructors who rely on these materials.

All rights reserved. No part of this publication may be reproduced, stored in a retrieval system, or transmitted, in any form or by any means, electronic, mechanical, photocopying, recording, or otherwise, without the prior written permission of the publisher. Printed in the United States of America.

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

i t 's good and good for you

Chapter Eight

Product, Services, and Brands: Building Customer Value

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Product, Services, and Branding Strategy

Topic Outline

- What Is a Product?
- Product and Services Decisions
- Services Marketing
- Branding Strategy: Building Strong Brands

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

What Is a Product?

Products, Services, and Experiences

Product is anything that can be offered in a market for attention, acquisition, use, or consumption that might satisfy a need or want

Service is a product that consists of activities, benefits or satisfaction that is essentially intangible and does not result in the ownership of anything

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

What Is a Product?

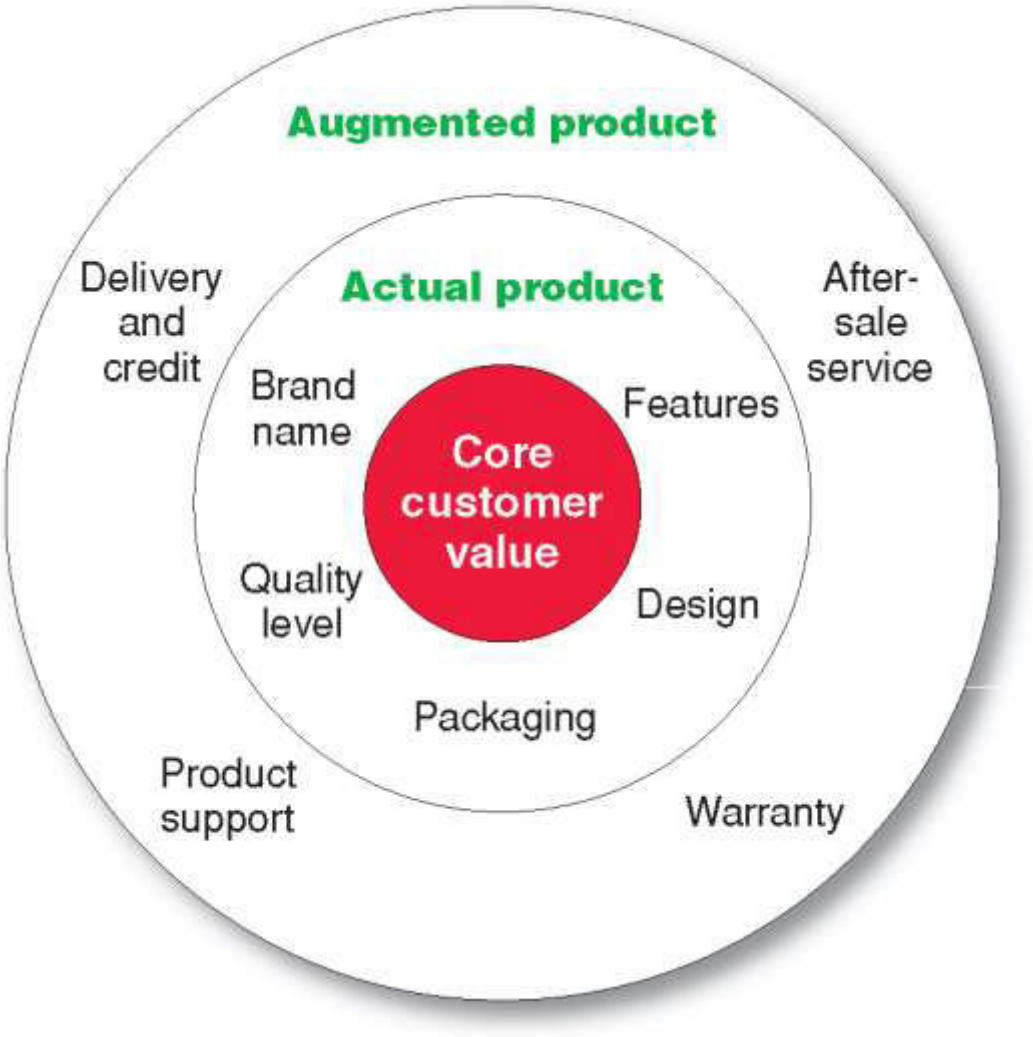
Products, Services, and Experiences

Experiences represent what buying the product or service will do for the customer

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

What Is a Product?

Levels of Product and Services



Copyright © 2012 Pear
Publishing as Prentice Hall

What Is a Product?

Product and Service Classifications

Consumer products

Industrial products

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

What Is a Product?

Product and Service Classifications

- Consumer products are products and services for personal consumption
- Classified by how consumers buy them
  - Convenience products
  - Shopping products
  - Specialty products
  - Unsought products

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

What Is a Product?

Product and Service Classifications

Convenience products

consumer products and services that the customer usually buys frequently, immediately, and with a minimum comparison and buying effort

- Newspapers
- Candy
- Fast food

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

What Is a Product?

Product and Service Classifications

Shopping products

consumer products and services that the customer compares carefully on suitability, quality, price, and style

- Furniture
- Cars
- Appliances

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

What Is a Product?

Product and Service Classifications

Specialty products

consumer products and services with unique characteristics or brand identification for which a significant group of buyers is willing to make a special purchase effort

- Medical services
- Designer clothes
- High-end electronics

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

What Is a Product?

Product and Service Classifications

Unsought products

consumer products that the consumer does not know about or knows about but does not normally think of buying

- Life insurance
- Funeral services
- Blood donations

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

What Is a Product?

Product and Service Classifications

Industrial products

products purchased for further processing or for use in conducting a business

- Classified by the purpose for which the product is purchased
  - Materials and parts
  - Capital
  - Raw materials

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

What Is a Product?

Product and Service Classifications

Capital items are industrial products that aid in the buyer's production or operations

Materials and parts include raw materials and manufactured materials and parts usually sold directly to industrial users

Supplies and services include operating supplies, repair and maintenance items, and business services

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

What Is a Product?

Organizations, Persons, Places, and Ideas

Organization marketing consists of activities undertaken to create, maintain, or change attitudes and behavior of target consumers toward an organization

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

What Is a Product?

Organizations, Persons, Places, and Ideas

Person marketing consists of activities undertaken to create, maintain, or change attitudes and behavior of target consumers toward particular people

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

What Is a Product

Organizations, Persons, Places, and Ideas

Place marketing consists of activities undertaken to create, maintain, or change attitudes and behavior of target consumers toward particular places

Social marketing is the use of commercial marketing concepts and tools in programs designed to influence individuals' behavior to improve their well-being and that of society

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Product and Service Decisions

Individual Product and Service Decisions

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Product and Service Decisions

Individual Product and Service Decisions

Product or service attributes

communicate and deliver the benefits

- Quality
- Features
- Style and design

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Product and Service Decisions

Individual Product and Service Decisions

- **Product Quality Level** is the level of quality that supports the product's positioning
- **Product Conformance Quality** is the product's freedom from defects and consistency in delivering a targeted level of performance

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Product and Service Decisions

Individual Product and Service Decisions

Product features

- are a competitive tool for differentiating a product from competitors' products
- are assessed based on the value to the customer versus the cost to the company

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Product and Service Decisions

Individual Product and Service Decisions

Style describes the appearance of the product

Design contributes to a product's usefulness as well as to its looks

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Product and Service Decisions

Individual Product and Service Decisions

Brand is the name, term, sign, or design—or a combination of these—that identifies the maker or seller of a product or service

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Product and Service Decisions

Individual Product and Service Decisions

Packaging involves designing and producing the container or wrapper for a product

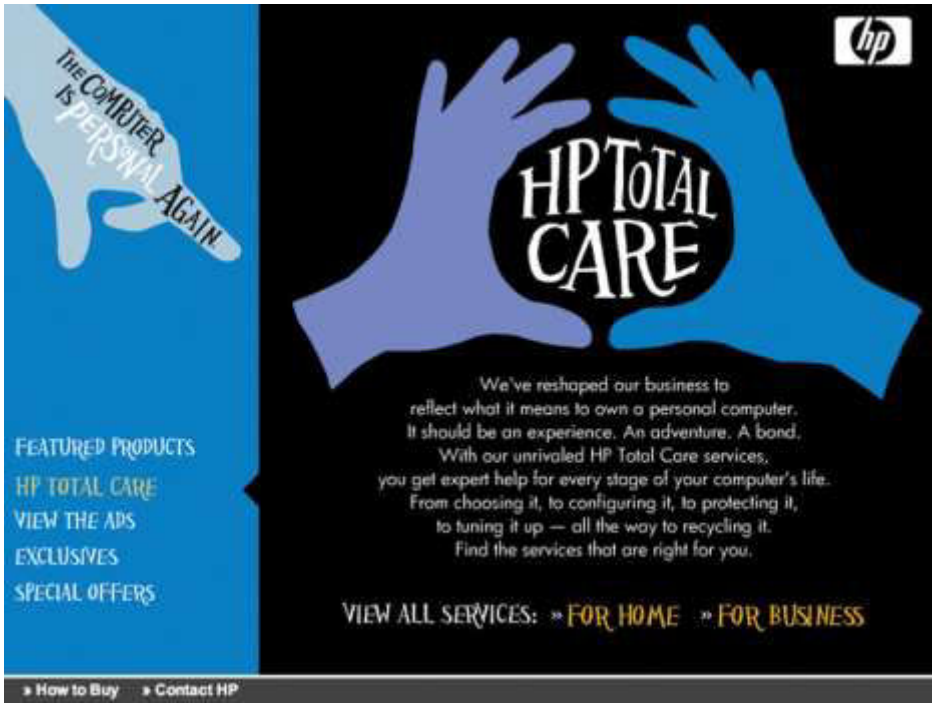
Labels identify the product or brand, describe attributes, and provide promotion

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Product and Service Decisions

Individual Product and Service Decisions

Product support services augment actual products


THE COMPUTER IS PERSONAL AGAIN.
HP TOTAL CARE
We've reshaped our business to reflect what it means to own a personal computer. It should be an experience. An adventure. A bond. With our unrivaled HP Total Care services, you get expert help for every stage of your computer's life. From choosing it, to configuring it, to protecting it, to tuning it up — all the way to recycling it. Find the services that are right for you.
FEATURED PRODUCTS
HP TOTAL CARE
VIEW THE ADS
EXCLUSIVES
SPECIAL OFFERS
VIEW ALL SERVICES: » FOR HOME » FOR BUSINESS
» How to Buy » Contact HP

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Product and Service Decisions

Product Line Decisions

Product line is a group of products that are closely related because they function in a similar manner, are sold to the same customer groups, are marketed through the same types of outlets, or fall within given price ranges

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Product and Service Decisions

Product Line Decisions

Product line length is the number of items in the product line

- Line stretching
- Line filling

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Product and Service Decisions

Product Mix Decisions

Product mix consists of all the products and items that a particular seller offers for sale

- » Width
- » Length
- » Depth
- » Consistency

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Services Marketing

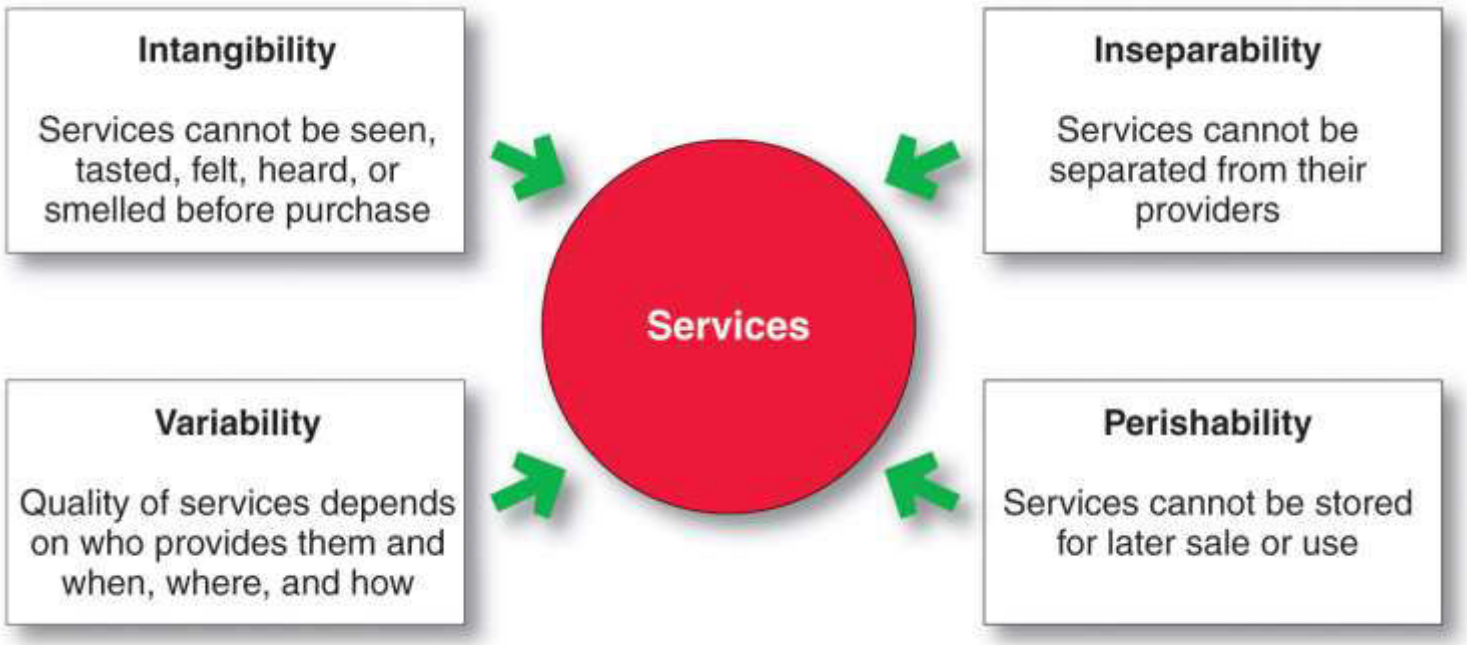
Types of Service Industries

- Government
- Private not-for-profit organizations
- Business services

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Services Marketing

Nature and Characteristics of a Service


Intangibility
Services cannot be seen, tasted, felt, heard, or smelled before purchase
Inseparability
Services cannot be separated from their providers
Services
Variability
Quality of services depends on who provides them and when, where, and how
Perishability
Services cannot be stored for later sale or use

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Services Marketing

Marketing Strategies for Service Firms

In addition to traditional marketing strategies, service firms often require additional strategies

- Service-profit chain
- Internal marketing
- Interactive marketing

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Services Marketing

Marketing Strategies for Service Firms

Service-profit chain links service firm profits with employee and customer satisfaction

- Internal service quality
- Satisfied and productive service employees
- Greater service value
- Satisfied and loyal customers
- Healthy service profits and growth

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Services Marketing

Marketing Strategies for Service Firms

Internal marketing means that the service firm must orient and motivate its customer contact employees and supporting service people to work as a team to provide customer satisfaction

Internal marketing must precede external marketing

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Services Marketing

Marketing Strategies for Service Firms

Interactive marketing means that service quality depends heavily on the quality of the buyer-seller interaction during the service encounter

- Service differentiation
- Service quality
- Service productivity

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Services Marketing

Marketing Strategies for Service Firms

Managing service differentiation creates a competitive advantage from the offer, delivery, and image of the service

- **Offer** can include distinctive features
- **Delivery** can include more able and reliable customer contact people, environment, or process
- **Image** can include symbols and branding

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Services Marketing

Marketing Strategies for Service Firms

Managing service quality provides a competitive advantage by delivering consistently higher quality than its competitors

Service quality always varies depending on interactions between employees and customers

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Services Marketing

Marketing Strategies for Service Firms

Managing service productivity refers to the cost side of marketing strategies for service firms

- Employee recruiting, hiring, and training strategies
- Service quantity and quality strategies

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

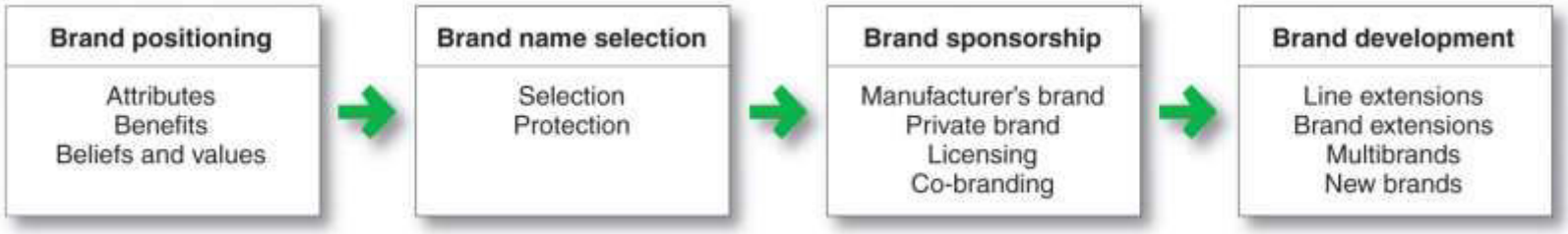
Branding Strategy: Building Strong Brands

Brand equity

The differential effect that knowing the brand name has on customer response to the product or its marketing.

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Branding Strategy: Building Strong Brands



Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Branding Strategy: Building Strong Brands

Brand Positioning

Brand strategy decisions include:

- Product attributes
- Product benefits
- Product beliefs and values

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Branding Strategy: Building Strong Brands

Brand Name Selection

Desirable qualities

1. Suggest benefits and qualities
2. Easy to pronounce, recognize, and remember
3. Distinctive
4. Extendable
5. Translatable for the global economy
6. Capable of registration and legal protection

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Branding Strategy: Building Strong Brands

Brand Sponsorship

Manufacturer's brand

Private brand

Licensed brand

Co-brand

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Branding Strategy: Building Strong Brands

Brand Development Strategies

Brand name \ Product category	Existing	New
Existing	Line extension	Brand extension
New	Multibrands	New brands

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

This work is protected by United States copyright laws and is provided solely for the use of instructors in teaching their courses and assessing student learning. Dissemination or sale of any part of this work (including on the World Wide Web) will destroy the integrity of the work and is not permitted. The work and materials from it should never be made available to students except by instructors using the accompanying text in their classes. All recipients of this work are expected to abide by these restrictions and to honor the intended pedagogical purposes and the needs of other instructors who rely on these materials.

All rights reserved. No part of this publication may be reproduced, stored in a retrieval system, or transmitted, in any form or by any means, electronic, mechanical, photocopying, recording, or otherwise, without the prior written permission of the publisher. Printed in the United States of America.

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

i t 's good and good for you

Chapter Nine

New-Product Development and Product Life-Cycle Strategies

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

New-Product Development and Product Life-Cycle Strategies

Topic Outline

- New-Product Development Strategy
- New-Product Development Process
- Managing New-Product Development
- Product Life-Cycle Strategies
- Additional Product and Service Considerations

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

New-Product Development Strategy

Two ways to obtain new products

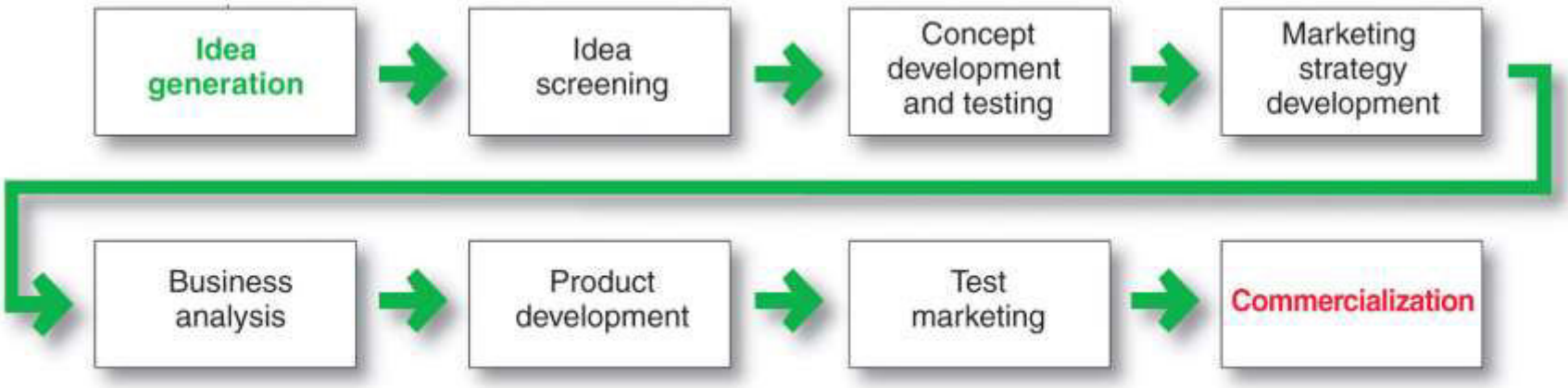
Acquisition refers to the buying of a whole company, a patent, or a license to produce someone else's product

New product development refers to original products, product improvements, product modifications, and new brands developed from the firm's own research and development

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

New-Product Development Process

Major Stages in New-Product Development



Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

New-Product Development Process

Idea Generation

Idea generation is the systematic search for new-product ideas

Sources of new-product ideas

- Internal
- External

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

New-Product Development Process

Idea Generation

Internal sources refer to the company's own formal research and development, management and staff, and intrapreneurial programs

External sources refer to sources outside the company such as customers, competitors, distributors, suppliers, and outside design firms

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

New-Product Development Process

Crowdsourcing

Inviting broad communities of people—customers, employees, independent scientists and researchers, and even the public at large—into the new-product innovation process.

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

New-Product Development Process

Idea Screening

- Identify good ideas and drop poor ideas
- R-W-W Screening Framework:
  - Is it **real**?
  - Can we **win**?
  - Is it **worth** doing?

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

New-Product Development Process

Concept Development and Testing

Product idea is an idea for a possible product that the company can see itself offering to the market

Product concept is a detailed version of the idea stated in meaningful consumer terms

Product image is the way consumers perceive an actual or potential product

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

New-Product Development Process

Concept Development and Testing

Concept testing refers to testing new-product concepts with groups of target consumers

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

New-Product Development Process

Marketing Strategy Development

- Marketing strategy development refers to the initial marketing strategy for introducing the product to the market
- Marketing strategy statement includes:
  - Description of the target market
  - Value proposition
  - Sales and profit goals

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

New-Product Development Process

Marketing Strategy Development

Business analysis involves a review of the sales, costs, and profit projections to find out whether they satisfy the company's objectives

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

New-Product Development Process

Marketing Strategy Development

Product development

- Involves the creation and testing of one or more physical versions by the R&D or engineering departments
- Requires an increase in investment
- Shows whether the product idea can be turned into a workable product.

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

New-Product Development Process

Marketing Strategy Development

Test marketing is the stage at which the product and marketing program are introduced into more realistic marketing settings

Provides the marketer with experience in testing the product and entire marketing program before full introduction

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

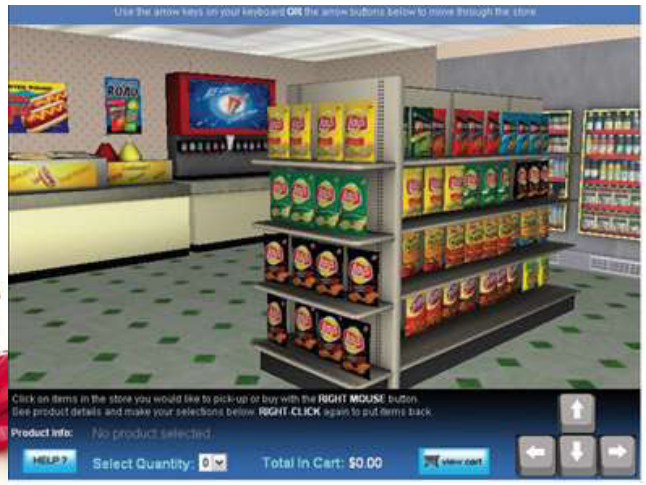
New-Product Development Process

Types of Test Markets

Standard test markets

Controlled test markets

Simulated test markets


Use the arrow keys on your keyboard OR the arrow buttons below to move through the store.
Click on items in the store you would like to pick-up or buy with the RIGHT MOUSE button.
See product details and make your selections below. RIGHT-CLICK again to put items back.
Product Info: No product selected.
HELP ?
Select Quantity: 0
Total In Cart: $0.00
view cart

Use the arrow keys on your keyboard OR the arrow buttons below to move through the store.
Doritos
Lays
Click on items in the store you would like to pick-up or buy with the LEFT MOUSE button.
See product details and make your selections below. LEFT-CLICK again to put items back.
Product Info: Doritos Nacho Cheesier -- 2.75 oz. bag for $0.99
HELP ?
Select Quantity: 0
Total In Cart: $0.00
view cart

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

New-Product Development Process

Marketing Strategy Development

- Advantages of simulated test markets
  - Less expensive than other test methods
  - Faster
  - Restricts access by competitors
- Disadvantages
  - Not considered as reliable and accurate due to the controlled setting

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

New-Product Development Process

Marketing Strategy Development

When firms test market	When firms may not test market
• New product with large investment • Uncertainty about product or marketing program	• Simple line extension • Copy of competitor product • Low costs • Management confidence

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

New-Product Development Process

Marketing Strategy Development

Commercialization is the introduction of the new product

- When to launch
- Where to launch
- Planned market rollout

NETFLIX
Netflix Prize
Home
Rules
Leaderboard
Register
Update
Submit
Download
Movies For You
Welcome!
The Netflix Prize seeks to substantially improve the accuracy of predictions about how much someone is going to love a movie based on their movie preferences. Improve it enough and you win one (or more) Prizes. Winning the Netflix Prize improves our ability to connect people to the movies they love.
Read the Rules to see what is required to win the Prizes. If you are interested in joining the quest, you should register a team.
You should also read the frequently-asked questions about the Prize. And check out how various teams are doing on the Leaderboard.
Good luck and thanks for helping!

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Managing New-Product Development

Successful new-product development should be:

- Customer centered
- Team-based
- Systematic

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Managing New-Product Development

New-Product Development Strategies

Customer-centered new product development new ways to solve customer problems and create more customer satisfying experiences

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Managing New-Product Development

New-Product Development Strategies

Sequential new-product development
company departments work closely together individually to complete each stage of the process before passing it along to the next department or stage

- Increased control in risky or complex projects but may be slow

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Managing New-Product Development

New-Product Development Strategies

Team-based new-product development

Company departments work closely together in cross-functional teams, overlapping in the product-development process to save time and increase effectiveness

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Managing New-Product Development

New-Product Development Strategies

Systematic new-product development

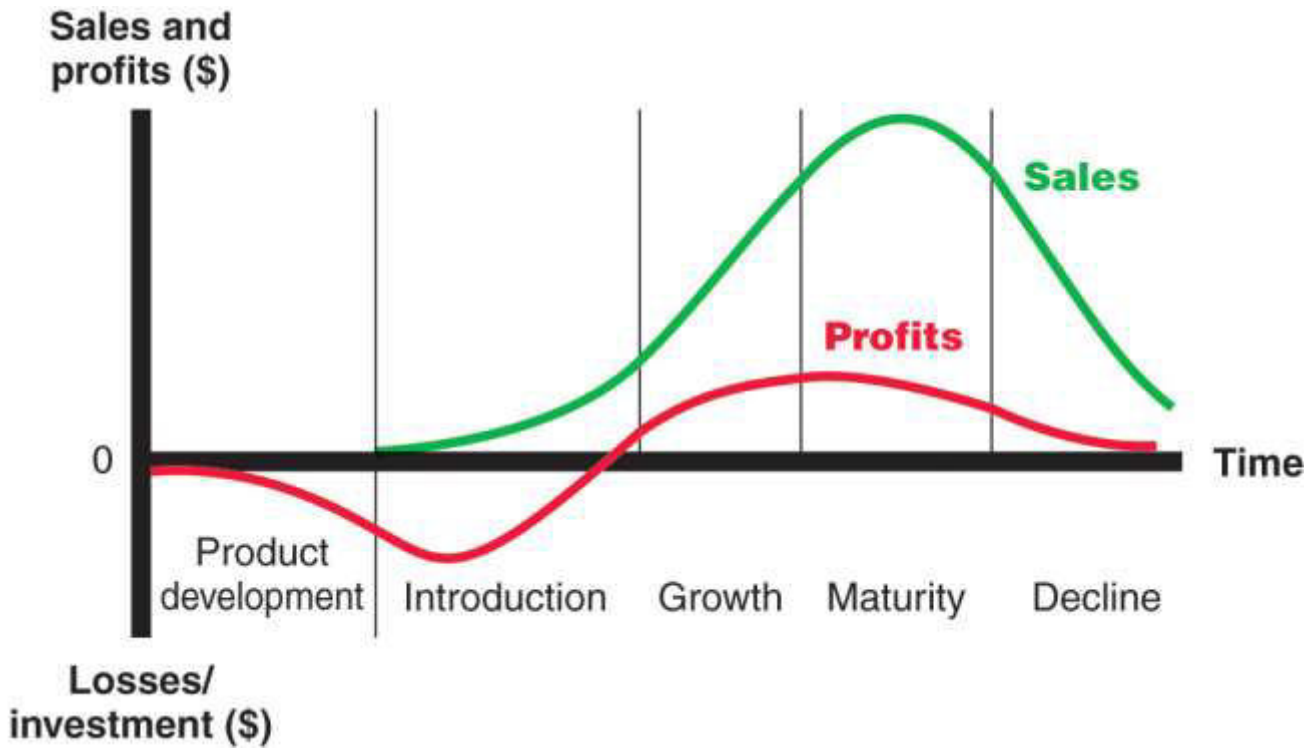
innovative development approach that collects, reviews, evaluates, and manages new-product ideas

- Creates an innovation-oriented culture
- Yields a large number of new-product ideas

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Product Life-Cycle Strategies

Product Life Cycle



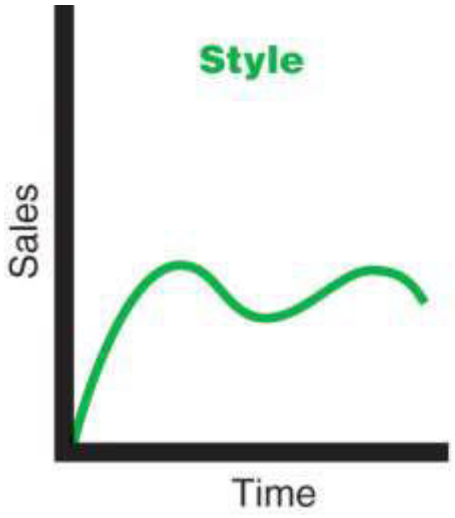
Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

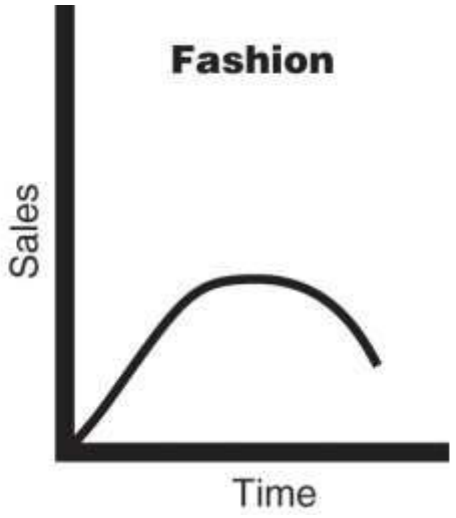
Product Life-Cycle Strategies

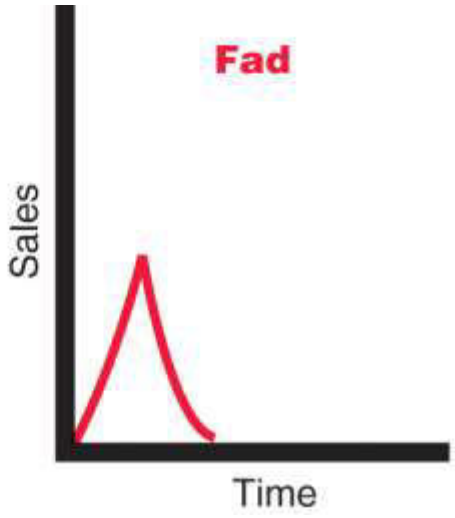
- Product development
  - Sales are zero and investment costs mount
- Introduction
  - Slow sales growth and profits are nonexistent
- Growth
  - Rapid market acceptance and increasing profits.
- Maturity
  - Slowdown in sales growth and profits level off or decline
- Decline
  - Sales fall off and profits drop

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Product Life-Cycle Strategies







Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Product Life-Cycle Strategies

Fads are temporary periods of unusually high sales driven by consumer enthusiasm and immediate product or brand popularity

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Product Life-Cycle Strategies

Introduction Stage

- Slow sales growth
- Little or no profit
- High distribution and promotion expense

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Product Life-Cycle Strategies

Growth Stage

- Sales increase
- New competitors enter the market
- Price stability or decline to increase volume
- Consumer education
- Profits increase
- Promotion and manufacturing costs gain economies of scale

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Product Life-Cycle Strategies

Maturity Stage

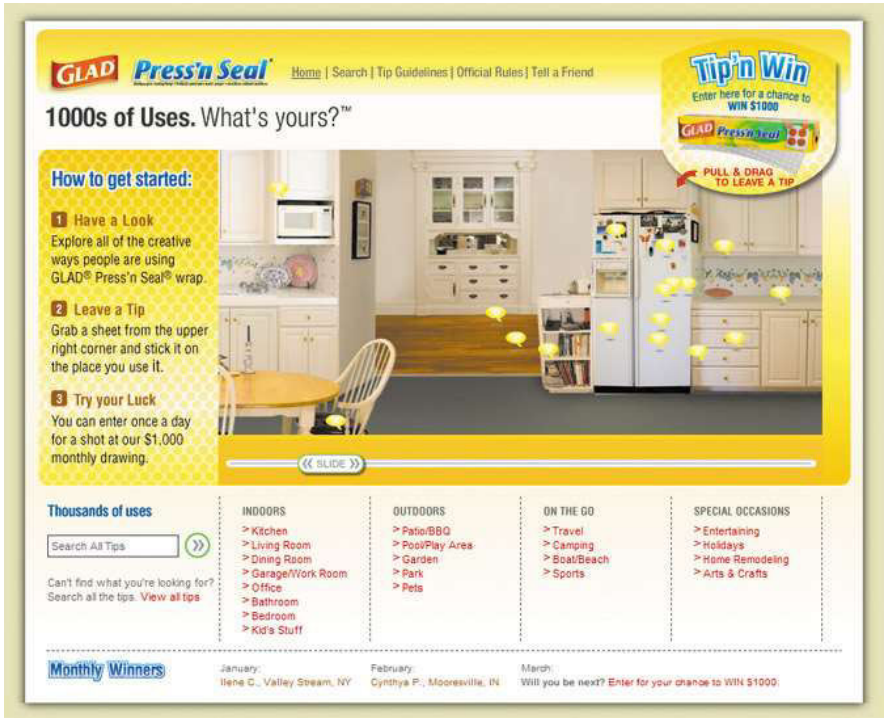
- Slowdown in sales
- Many suppliers
- Substitute products
- Overcapacity leads to competition
- Increased promotion and R&D to support sales and profits

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Product Life-Cycle Strategies

Maturity Stage Modifying Strategies

- Market modifying
- Product modifying
- Marketing mix modifying


GLAD Press'n Seal
Home | Search | Tip Guidelines | Official Rules | Tell a Friend
Tip'n Win
Enter here for a chance to WIN $1000
1000s of Uses. What's yours?™
PULL & DRAG TO LEAVE A TIP
How to get started:
1 Have a Look
Explore all of the creative ways people are using GLAD® Press'n Seal® wrap.
2 Leave a Tip
Grab a sheet from the upper right corner and stick it on the place you use it.
3 Try your Luck
You can enter once a day for a shot at our $1,000 monthly drawing.
« SLIDE »
Thousands of uses
Search All Tips
Can't find what you're looking for? Search all the tips. View all tips
INDOORS
> Kitchen
> Living Room
> Dining Room
> Garage/Work Room
> Office
> Bathroom
> Bedroom
> Kid's Stuff
OUTDOORS
> Patio/BBQ
> Pool/Play Area
> Garden
> Park
> Pets
ON THE GO
> Travel
> Camping
> Boat/Beach
> Sports
SPECIAL OCCASIONS
> Entertaining
> Holidays
> Home Remodeling
> Arts & Crafts
Monthly Winners
January:
Ilene C., Valley Stream, NY
February:
Cynthya P., Mooresville, IN
March:
Will you be next? Enter for your chance to WIN $1000!

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Product Life-Cycle Strategies

Decline Stage

- Maintain the product
- Harvest the product
- Drop the product

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Additional Product and Service Considerations

Product Decisions and Social Responsibility

Public policy and regulations regarding developing and dropping products, patents, quality, and safety

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Additional Product and Service Considerations

International Product and Service Marketing—Challenges

- Determining what products and services to introduce in which countries
- Standardization versus customization
- Packaging and labeling
- Customs, values, laws

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

This work is protected by United States copyright laws and is provided solely for the use of instructors in teaching their courses and assessing student learning. Dissemination or sale of any part of this work (including on the World Wide Web) will destroy the integrity of the work and is not permitted. The work and materials from it should never be made available to students except by instructors using the accompanying text in their classes. All recipients of this work are expected to abide by these restrictions and to honor the intended pedagogical purposes and the needs of other instructors who rely on these materials.

All rights reserved. No part of this publication may be reproduced, stored in a retrieval system, or transmitted, in any form or by any means, electronic, mechanical, photocopying, recording, or otherwise, without the prior written permission of the publisher. Printed in the United States of America.

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

i t 's good and good for you

Chapter Ten

Pricing:

Understanding and Capturing Customer Value

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Pricing: Understanding and Capturing Customer Value

Topic Outline

- What Is a Price?
- Major Pricing Strategies
- Other Internal and External Considerations Affecting Price Decisions

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

What Is a Price?

Price is the amount of money charged for a product or service. It is the sum of all the values that consumers give up in order to gain the benefits of having or using a product or service.

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

What Is a Price?

Price is the only element in the marketing mix that produces revenue; all other elements represent costs

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Major Pricing Strategies

Customer Value-Based Pricing

Understanding how much value consumers place on the benefits they receive from the product and setting a price that captures that value

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Major Pricing Strategies

Customer Value-Based Pricing

Customer perceptions of value
Price ceiling
No demand above this price
Other internal and external considerations
Marketing strategy, objectives, and mix
Nature of the market and demand
Competitors' strategies and prices
Product costs
Price floor
No profits below this price

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Major Pricing Strategies

Customer Value-Based Pricing

Value-based pricing uses the buyers' perceptions of value, not the sellers cost, as the key to pricing. Price is considered before the marketing program is set.

- Value-based pricing is customer driven
- Cost-based pricing is product driven

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Major Pricing Strategies

Customer Value-Based Pricing

Cost-based pricing

Design a good product → Determine product costs → Set price based on cost → Convince buyers of product's value

Value-based pricing

Assess customer needs and value perceptions → Set target price to match customer perceived value → Determine costs that can be incurred → Design product to deliver desired value at target price

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Major Pricing Strategies

Customer Value-Based Pricing

Good-value pricing

offers the right combination of quality and good service at a fair price

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Major Pricing Strategies

Customer Value-Based Pricing

Everyday low pricing (EDLP) charging a constant everyday low price with few or no temporary price discounts

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Major Pricing Strategies

Customer Value-Based Pricing

High-low pricing charging higher prices on an everyday basis but running frequent promotions to lower prices temporarily on selected items

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Major Pricing Strategies

Customer Value-Based Pricing

- Value-added pricing attaches value-added features and services to differentiate offers, support higher prices, and build pricing power

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Major Pricing Strategies

Cost-Based Pricing

Cost-based pricing setting prices based on the costs for producing, distributing, and selling the product plus a fair rate of return for effort and risk

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Major Pricing Strategies

Cost-Based Pricing

Cost-based pricing adds a standard markup to the cost of the product

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Major Pricing Strategies

Cost-Based Pricing

Types of costs

- Fixed costs
- Variable costs
- Total costs

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Major Pricing Strategies

Cost-Based Pricing

Fixed costs are the costs that do not vary with production or sales level

- Rent
- Heat
- Interest
- Executive salaries

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Major Pricing Strategies

Cost-Based Pricing

Variable costs are the costs that vary with the level of production

- Packaging
- Raw materials

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Major Pricing Strategies

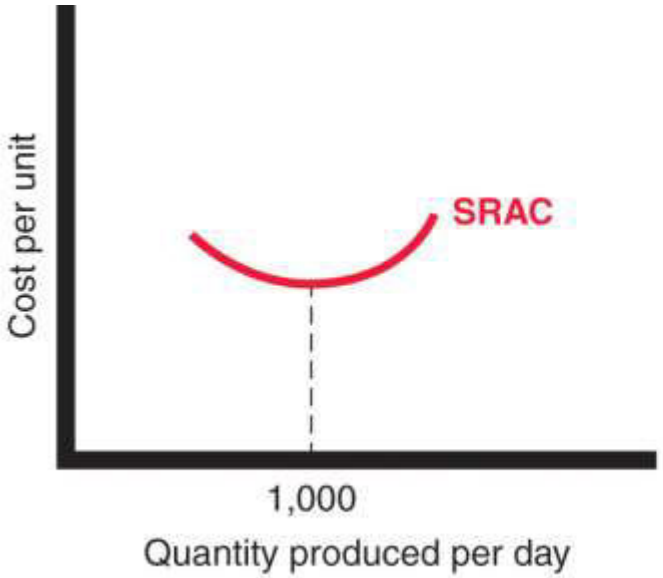
Cost-Based Pricing

Total costs are the sum of the fixed and variable costs for any given level of production

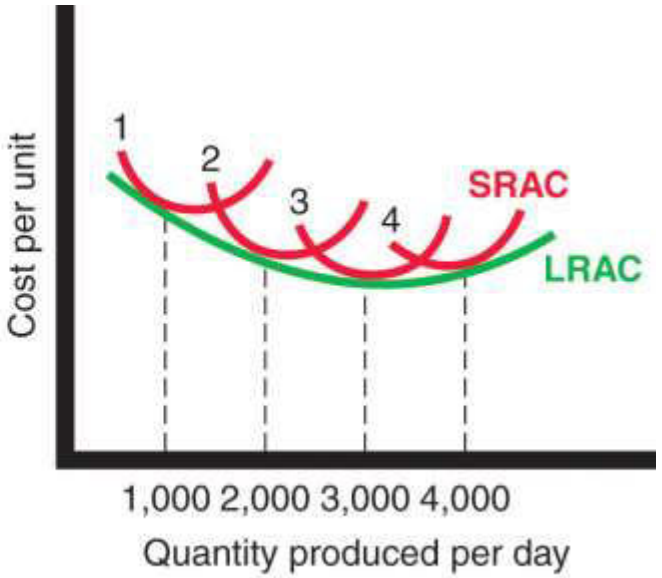
Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Major Pricing Strategies

Costs as a Function of Production Experience



A. Cost behavior in a fixed-size plant



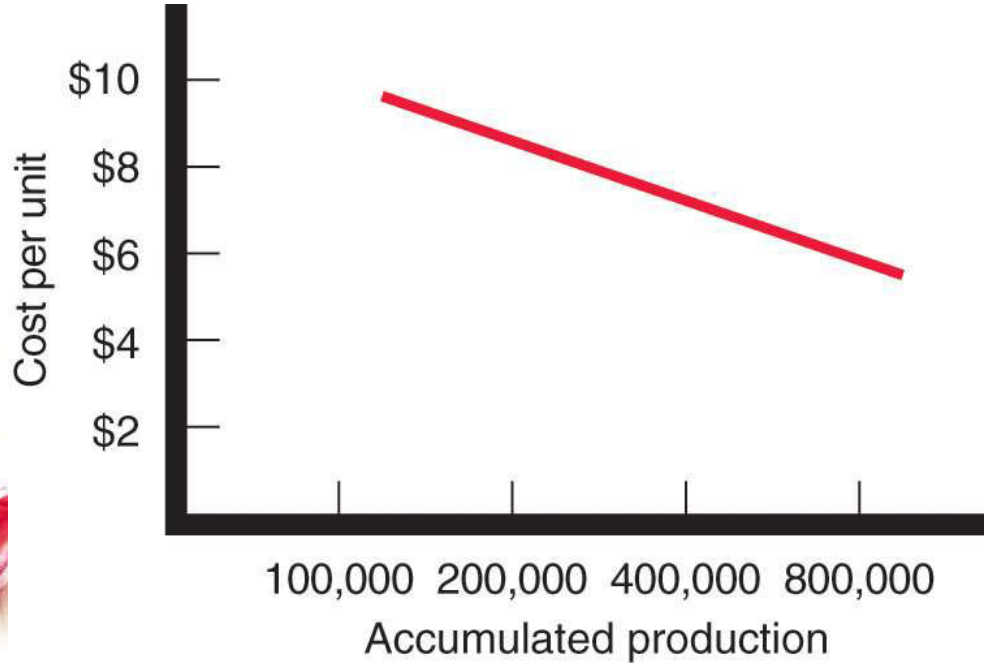
B. Cost behavior over different-size plants

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Major Pricing Strategies

Costs as a Function of Production Experience

Experience or learning curve is when average cost falls as production increases because fixed costs are spread over more units



Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Major Pricing Strategies

Cost-Plus Pricing

- Cost-plus pricing adds a standard markup to the cost of the product
- Benefits
  - Sellers are certain about costs
  - Prices are similar in industry and price competition is minimized
  - Buyers feel it is fair
- Disadvantages
  - Ignores demand and competitor prices

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Major Pricing Strategies

Break-Even Analysis and Target Profit Pricing

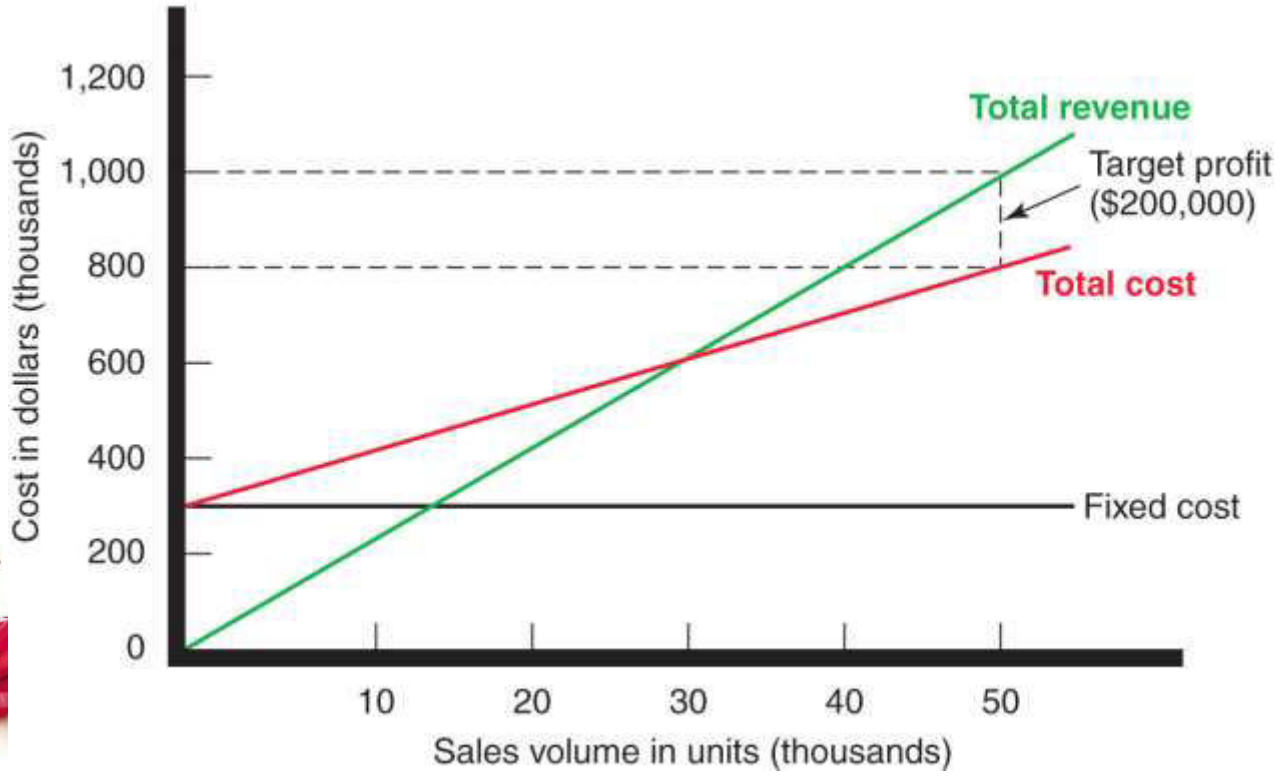
Break-even pricing is the price at which total costs are equal to total revenue and there is no profit

Target profit pricing is the price at which the firm will break even or make the profit it's seeking

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Major Pricing Strategies

Break-Even Analysis and Target Profit Pricing



Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Major Pricing Strategies

Competition-based pricing

- Setting prices based on competitors' strategies, costs, prices, and market offerings.
- Consumers will base their judgments of a product's value on the prices that competitors charge for similar products.

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Considerations in Setting Price

Customer perceptions of value
Price ceiling
No demand above this price
Other internal and external considerations
Marketing strategy, objectives, and mix
Nature of the market and demand
Competitors' strategies and prices
Product costs
Price floor
No profits below this price

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Other Internal and External Considerations Affecting Price Decisions

Target costing starts with an ideal selling price based on consumer value considerations and then targets costs that will ensure that the price is met

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Other Internal and External Considerations Affecting Price Decisions

Organizational considerations include:

- Who should set the price
- Who can influence the prices

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Other Internal and External Considerations Affecting Price Decisions

The Market and Demand

- Before setting prices, the marketer must understand the relationship between price and demand for its products

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Other Internal and External Consideration Affecting Price Decisions

Competition

- Pure competition
- Monopolistic competition
- Oligopolistic competition
- Pure monopoly

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

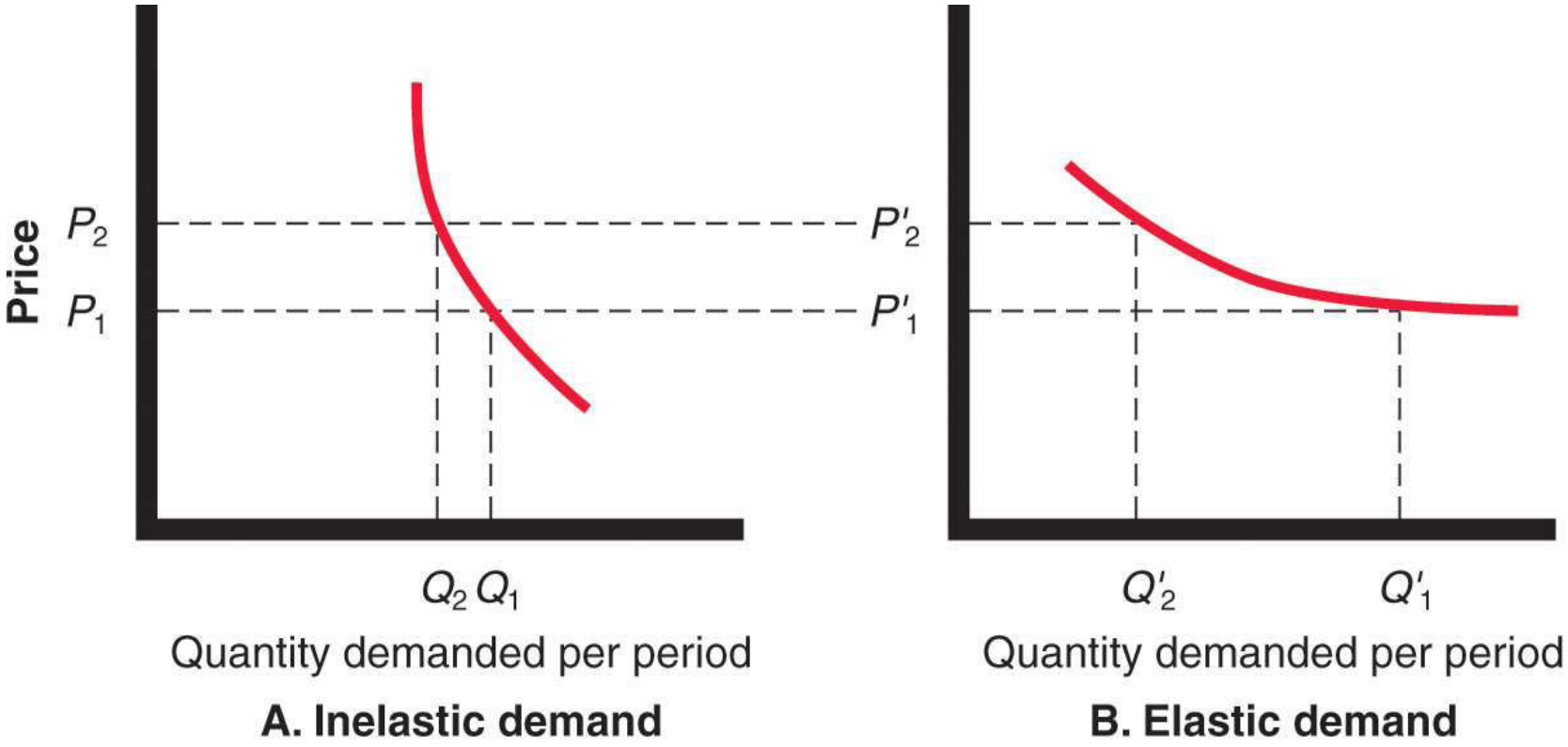
Other Internal and External Considerations Affecting Price Decisions

The demand curve shows the number of units the market will buy in a given period at different prices

- Normally, demand and price are inversely related
- Higher price = lower demand
- For prestige (luxury) goods, higher price can equal higher demand when consumers perceive higher prices as higher quality

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Other Internal and External Considerations Affecting Price Decisions



Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Other Internal and External Considerations Affecting Price Decisions

Price elasticity of demand illustrates the response of demand to a change in price

Inelastic demand occurs when demand hardly changes when there is a small change in price

Elastic demand occurs when demand changes greatly for a small change in price

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Other Internal and External Considerations Affecting Price Decisions

Price elasticity of demand =

$$\frac{\%\text{ change in quantity demand}}{\%\text{ change in price}}$$

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Other Internal and External Consideration Affecting Price Decisions

- Economic conditions
- Reseller's response to price
- Government
- Social concerns

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

This work is protected by United States copyright laws and is provided solely for the use of instructors in teaching their courses and assessing student learning. Dissemination or sale of any part of this work (including on the World Wide Web) will destroy the integrity of the work and is not permitted. The work and materials from it should never be made available to students except by instructors using the accompanying text in their classes. All recipients of this work are expected to abide by these restrictions and to honor the intended pedagogical purposes and the needs of other instructors who rely on these materials.

All rights reserved. No part of this publication may be reproduced, stored in a retrieval system, or transmitted, in any form or by any means, electronic, mechanical, photocopying, recording, or otherwise, without the prior written permission of the publisher. Printed in the United States of America.

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall

Copyright © 2012 Pearson Education, Inc.
Publishing as Prentice Hall